

## Company Report: Xiezhong International (03663 HK)

公司报告: 协众国际 (03663 HK)

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## Positives Priced in, Downgrade to "Neutral"

正面因素已经反映，下调至“中性”

- **Xiezhong's recorded net loss of RMB119.0 million in 1H19 on non-recurring items.** Core operations turned to profit in 1H19 amounting RMB24.9 million, slightly below expectations. Revenue jumped 108.0% yoy thanks to contribution from the new 4S business with revenue of RMB508.9 million. Meanwhile, the HVAC business saw revenue drop by 9.3% yoy to RMB393.3 million. Gross margin dropped significantly by 5.0 ppts yoy to 12.2% as the 4S business generally has lower gross margin. Nonetheless, HVAC gross margin dropped 0.5 ppts yoy to 16.7%, below our growth expectation.
- **We have decreased our underlying profit forecasts for 2019 to 2021 by 18.2%/ 28.9%/ 27.2%, respectively.** Despite that we think that Xiezhong was relatively better off as compared to OEMs, gross margin still fell short of our improvement expectation. Therefore, we have decreased both gross margin expectation for HVAC and 4S business, but hold the view on better 2H19.
- The Company generated YTD return above 27.9%, and we believe the positives are largely reflected in the current price level. Therefore, despite that we recognize the strong outlook of the Company, **we downgrade our investment rating to "Neutral" and revise down TP to HK\$1.78.** Our TP represents 18.1x 2019 PER and 15.7x 2020 PER. Downside risks of the Company include 1) further decline in China auto sales growth, 2) potential failure of the new venture in setting up the factory in Morocco, and 3) worse-than-expected BJEV vehicle sales.
- **协众 2019 年上半年的非经常性项目录得净亏损人民币 119.0 百万元。**核心业务在 2019 年上半年实现利润人民币 24.9 百万元，略低于预期。由于新的 4S 业务贡献收入为人民币 5.09 亿元，收入同比增长 108.0%。同时，HVAC 业务收入同比下降 9.3%至人民币 3.93 亿元。由于 4S 业务的毛利率普遍较低，毛利率同比大幅下降 5.0 个百分点至 12.2%。但是，HVAC 业务的毛利率同比下降 0.5 个百分点至 16.7%，低于我们的增长预期。
- **我们将 2019 年至 2021 年的核心盈利预测分别下调 18.2%/ 28.9%/ 27.2%。**尽管我们认为公司的表现相比主机厂较好，但毛利率仍然低于我们的改善预期。因此，我们降低了 HVAC 和 4S 业务的毛利率预测，但认为 2019 年下半年会有改善。
- 公司年初至今的回报率为 27.9%，我们认为正面因素已经反映当前价格水平。因此，尽管我们认为公司前景光明，**我们将投资评级下调至“中性”并下调目标价至 1.78 港元。**目标价对应 18.1 倍的 2019 年市盈率和 15.7 倍的 2020 年市盈率。公司将面临的下行风险包括：1) 中国汽车销量增幅将进一步下滑；2) 在摩洛哥建厂的新业务可能失败；以及 3) 北京新能源销量差于预期。

Rating:

**Neutral**

Downgraded

评级:

中性 (下调)

6-18m TP 目标价:

**HK\$1.78**

Revised from 原目标价:

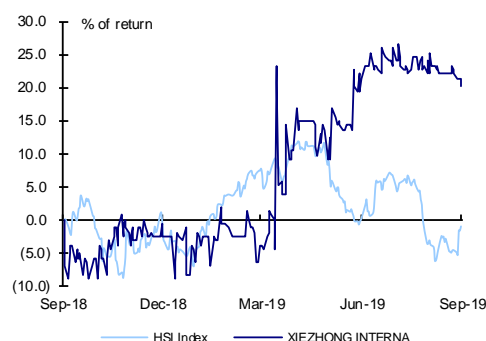
HK\$2.10

Share price 股价:

HK\$1.850

### Stock performance

股价表现



Change in Share Price	1 M	3 M	1 Y
股价变动	1 个月	3 个月	1 年
Abs. % 绝对变动 %	(3.1)	(1.1)	20.1
Rel. % to HS Index 相对恒指变动 %	(5.9)	(0.1)	21.2
Avg. share price (HK\$) 平均股价 (港元)	1.9	1.9	1.6

Source: Bloomberg, Guotai Junan International.

Year End	Turnover	Net Profit	EPS	EPS	PER	BPS	PBR	DPS	Yield	ROE
年结	收入	股东净利	每股净利	每股净利变动	市盈率	每股净资产	市净率	每股股息	股息率	净资产收益率
12/31	(RMB m)	(RMB m)	(RMB)	(Δ %)	(x)	(RMB)	(x)	(RMB)	(%)	(%)
2017A	930	(40)	(0.050)	(192.6)	(30.8)	0.990	1.6	0.000	0.0	(5.0)
2018A	924	(9)	(0.012)	n.a.	(135.4)	0.973	1.7	0.000	0.0	(1.2)
2019F	2,194	(85)	(0.107)	n.a.	(15.8)	0.866	2.0	0.000	0.0	(11.6)
2020F	2,531	27	0.034	n.a.	49.8	0.900	1.9	0.044	2.6	3.9
2021F	2,944	58	0.072	111.8	23.5	0.927	1.8	0.092	5.4	7.9
Shares in issue (m) 总股数 (m)				800.0	Major shareholder 大股东				Chen Hao 28.5%	
Market cap. (HK\$ m) 市值 (HK\$ m)				1,480.0	Free float(%) 自由流通比率(%)				71.5	
3 month average vol. 3 个月平均成交股数('000)				2,046.7	FY19 Net gearing (%) FY19 净负债/股东资金 (%)				168.9	
52 Weeks high/low (HK\$) 52 周高/低 (HK\$)				2.010 / 1.370	FY19 Est. NAV (HK\$) FY19 每股估值 (港元)				1.9	

Source: the Company, Guotai Junan International.

## 1H19 RESULTS REVIEW

**Xiezhong International ("Xiezhong" or the "Company") recorded net loss of RMB119.0 million in 1H19.** During the period, the Company booked a number of non-recurring expenses or losses including impairment losses on traded receivables, fixed assets, intangibles and loss on fair value changes of financial instruments amounted to RMB143.9 million. Excluding the non-recurring items, underlying profits was RMB24.9 million, slightly below our expectations. Key takeaways of the results are as follows:

- Xiezhong revenue jumped 108.0% yoy to RMB902.2 million on strong contribution from 4S business. To recap, the Company bought the 4S business from its largest shareholder which sell Lexus and FAW Volkswagen, and the business was transferred on 28 Dec. 2019. In 1H19, 4S business contributed RMB508.9 million, representing 56.4% of total revenue. Meanwhile HVAC business recorded revenue of RMB393.3 million, a yoy drop of 9.3%. We believe the weak auto market in 1H19 negatively impacted its key customers, such as Dongfeng Group, BAIC Motor and Geely Auto.
- Gross margin decreased 5.0 ppts to 12.2% due to significant change in sales mix as 4S business has a lower gross margin of 8.8% which is roughly in line with listed 4S companies. For components business, gross margin dropped 0.5 ppts to 16.7%.
- Meanwhile, both administrative and selling expense per revenue ratio dropped yoy by 5.4 ppts and 1.9 ppts, showing signs of benefits from economies of scale.
- Impairment loss on trade and other receivables was mainly caused by an increased credit risk of one customer.

**Table-1: Summary of 1H19 Financial Results of Xiezhong**

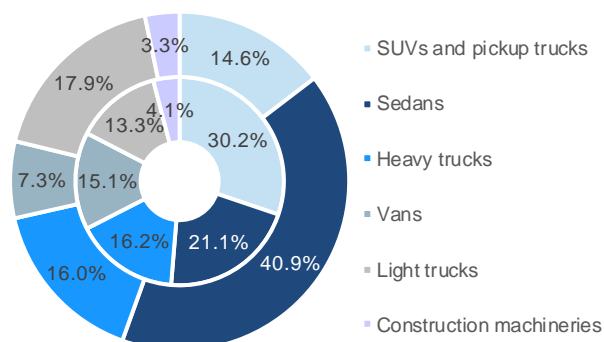
	1H19	1H18	yoy
<b>RMB mn, except per share item</b>			
Turnover	902.2	433.8	108.0%
Cost of sales	(791.7)	(359.1)	120.5%
Gross profit	110.4	74.7	47.9%
Other income and gains	12.3	6.2	96.7%
Selling and distribution costs	(41.6)	(28.4)	46.7%
Administrative expenses	(56.0)	(50.3)	11.2%
Other operating expenses	(0.2)	0.0	n.a.
Impairment losses on trade and other receivables	(65.9)	(15.1)	335.5%
Operating profit	(41.0)	(12.9)	217.0%
Net finance costs	(30.2)	(16.7)	81.0%
Loss on FV changes of FVTPL	(52.3)	0.0	n.a.
Profit before taxation	(123.4)	(29.6)	317.1%
Income tax	3.0	2.6	15.9%
Profit for the year/period	(120.4)	(27.0)	345.8%
Non-controlling interests	(1.4)	(0.5)	180.5%
Equity shareholders of the Company	(119.0)	(26.5)	348.9%
Basic EPS(RMB)	(0.1)	(0.0)	348.9%
<b>Other non-recurring items</b>			
Impairment loss of PPE and intangibles	(27.1)	0.0	n.a.
Underlying profit / loss	24.9	(11.9)	n.a.

Source: the Company, Guotai Junan International.

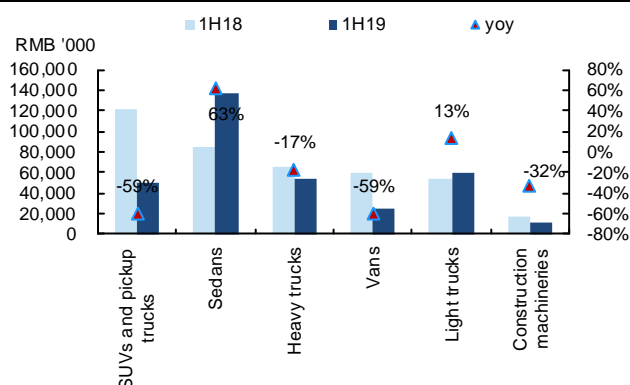
**Table-2: Operating Data of Xiezhong**

	1H19	1H18	yoy
<b>Key Financial Ratio</b>			<b>ppts</b>
Gross profit margin	12.2%	17.2%	-5.0
- HVAC	16.7%	17.2%	-0.5
- 4S	8.8%	n.a.	n.a.
Operating profit margin	-4.5%	-3.0%	-1.6
Net profit margin	-13.2%	-6.1%	-7.1
Selling costs to revenue	4.6%	6.5%	-1.9
Administrative expenses to revenue	6.2%	11.6%	-5.4
Effective tax rate	2.4%	8.7%	-6.3

Source: the Company, Guotai Junan International.

**Figure-1: Breakdown of Xiezhong's HVAC Revenue**


Source: the Company, Guotai Junan International.  
 Note: Inner ring: 1H18; Outer ring: 1H19.

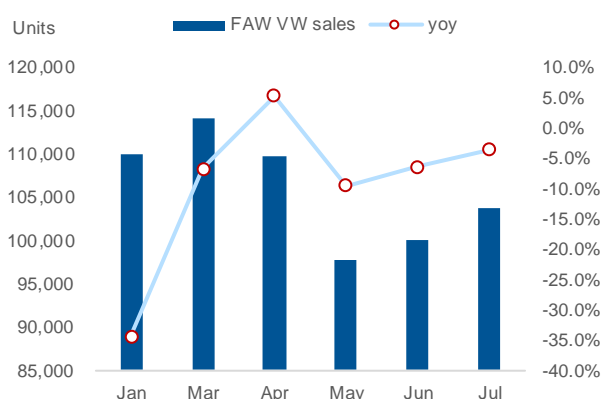
**Figure-2: Revenue of Xiezhong's HVAC System**


Source: the Company, Guotai Junan International.

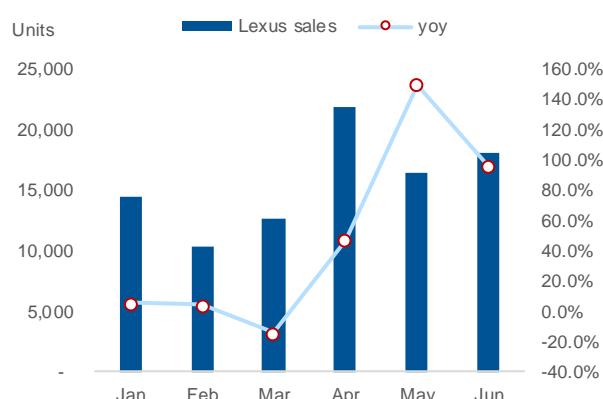
## BUSINESS UPDATE

**NEV to support sales and growth.** Despite that sales declined 9.3% for HVAC business, NEVs have been one of the key support factors that mitigated the slump. We noted that sales and production decreased significantly for key customers such as Dongfeng Motors, BAIC and Foton, etc. The reason is probably due to the disrupted market caused by the transitioning of China 5 to China 6 emission standards in 1H19, as well as a generally weaker economy that hurt both passenger and commercial vehicle demand. As noted, BJEV is one the largest customers of the Company. Sales volume of BJEV was up by 21.6% yoy in 1H19 due to strong government support that spurred NEV demand. Sales mix of NEVs increased to about 20% in 1H19. The high NEV sales mix was beneficial to the Company as 1) NEVs will be a key focus in the next few years, and the stronger exposure in NEVs and being a key supplier to BJEV could lead to further business opportunities; and 2) both pricing and gross margin are generally higher than traditional vehicles due to higher technological requirements. We expect the high proportion in NEVs will be supportive to the Company's profitability.

**4S business to become a strong arm for Xiezhong.** Lexus drive 4S business outperformed. In contrast with overall downward trends, the import market achieved yoy volume increase of 17.2%. Lexus volume was up by 38.2% yoy in 1H19 thanks to new products and strong brand name. We believe that Lexus is well on track to achieve 200,000 units in 2019 despite facing tariff risks from the US as Lexus is one of the few brands that have been performing very strongly since 2018. Popular models such as the ES should continue its strong momentum, while new models like the RX launched in Sep. 2019 with longer wheelbase version. On the other hand, despite that FAW VW dragged overall sales, sales declined 11.0% yoy in 1H19. However, we noticed that it is showing improvement with decline narrowing since May 2019. We believe 2H19 will be much better for the brand due to low base comparison and launch of new coupe version of Tayron.

**Figure-3: Sales Mix**


Source: the Company, Guotai Junan International.

**Figure-4: Lexus Sales in China 2019**


Source: CAAM, Guotai Junan International.

## EARNINGS REVISIONS

We have decreased our underlying profit forecasts for 2019 to 2021 by 18.2%/ 28.9%/ 27.2%, respectively. We forecast the Company to make loss after considering impairment losses and FV losses on financial instruments. On the other hand, core operations should perform weaker than expected, mainly caused by the weaker gross margins. The downstream auto market was weak in the first half, which caused disruption to all players. Despite that we think that Xiezhong was relatively better off as compared to OEMs, gross margin still fell short of our improvement expectation. Therefore we have decreased both expectation for HVAC and 4S business, but hold the view on better 2H19.

**Table-3: Major Financial Data and Forecast Changes**

	New			Old			Changes		
	2019F	2020F	2021F	2019F	2020F	2021F	2019F	2020F	2021F
Revenue	2,194.3	2,530.7	2,944.4	2,194.3	2,530.7	2,944.4	0.0%	0.0%	0.0%
Gross profit	293.0	344.7	411.2	322.2	380.6	455.5	-9.1%	-9.4%	-9.7%
Operating profit	2.0	128.5	164.6	141.5	173.8	219.5	-98.6%	-26.1%	-25.0%
Shareholders' profit	(85.3)	27.4	57.6	85.6	114.3	153.1	-199.7%	-76.0%	-62.4%
Underlying profit	72.3	82.8	113.2	88.3	116.5	155.4	-18.2%	-28.9%	-27.2%
EPS, basic (RMB)	(0.107)	0.034	0.072	0.107	0.143	0.191	-199.7%	-76.0%	-62.3%
Gross margin	13.4%	13.6%	14.0%	14.7%	15.0%	15.5%	(1.3)ppt	(1.4)ppt	(1.5)ppt
Operating margin	0.1%	5.1%	5.6%	6.5%	6.9%	7.5%	(6.4)ppt	(1.8)ppt	(1.9)ppt
Net margin	-3.9%	1.1%	2.0%	3.9%	4.5%	5.2%	(7.8)ppt	(3.4)ppt	(3.2)ppt

Source: Guotai Junan International.

## VALUATION

The Company has generated above return of 27.9% YTD, and we believe that the positives are largely reflected in the current price level. Therefore, despite that we recognize the strong outlook of the Company, **we have downgraded our investment rating to "Neutral" and revised down TP to HK\$1.78**. Our TP represents 18.1x 2019 PER and 15.7x 2020 PER. Downside risks of the Company include 1) further decline in China auto sales growth, 2) potential failure of the new venture in setting up the factory in Morocco, and 3) worse-than-expected drop in BJEV vehicle sales.

**Table-4: Peers Comparison**

Company	Stock Code	Currency	Last price	PE				PB				ROE(%)		D/Y(%)		EV/EBITDA	
				18A	19F	20F	21F	18A	19F	20F	21F	19F	19F	19F	19F	19F	19F
Wuling Motors Ho	305 HK	HKD	0.30	7.2	n.a.	n.a.	n.a.	0.4	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Minth Group Ltd	425 HK	HKD	25.50	14.8	14.6	12.5	11.0	2.0	1.9	1.7	1.6	13.5	2.7	8.8			
Xinyi Glass	868 HK	HKD	8.18	7.7	8.1	7.4	6.6	1.8	1.6	1.4	1.3	20.4	6.2	7.3			
Fuyao Glass In-H	3606 HK	HKD	23.05	11.9	15.3	13.5	12.1	2.5	2.4	2.3	2.1	16.1	4.2	11.0			
Zhejiang Shiba-H	1057 HK	HKD	0.93	85.2	n.a.	n.a.	n.a.	0.4	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.			
Xinchen China Po	1148 HK	HKD	0.29	30.6	n.a.	n.a.	n.a.	0.1	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.			
Shuanghua Hldgs	1241 HK	HKD	0.22	n.a.	n.a.	n.a.	n.a.	0.4	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.			
Nexteer	1316 HK	HKD	6.82	5.8	7.7	7.1	6.6	1.3	1.2	1.0	0.9	16.4	2.8	3.1			
Xin Point Holdin	1571 HK	HKD	1.64	3.5	3.4	3.0	2.8	0.6	0.6	0.5	0.4	17.5	8.1	n.a.			
Xingda Intl	1899 HK	HKD	2.04	9.7	7.1	n.a.	n.a.	0.5	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.			
Xiezhong Interna	3663 HK	HKD	1.85	n.a.	14.8	11.6	8.6	1.7	1.5	1.4	1.4	10.4	1.8	n.a.			
Prinx Chengshan	1809 HK	HKD	7.15	6.7	8.4	6.4	4.6	0.4	1.2	1.1	0.9	15.0	3.2	4.8			
Huazhong In-V	6830 HK	HKD	1.10	11.8	n.a.	n.a.	n.a.	1.8	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.			
Simple Average				17.7	9.9	8.8	7.5	1.1	1.5	1.3	1.2	15.6	4.1	7.0			
Weighted Average				12.3	11.8	10.4	9.3	2.0	1.8	1.7	1.5	15.8	4.0	8.1			
Anhui Zhongdi-A	000887 CH	CNY	9.72	10.6	10.2	8.9	8.1	1.4	1.3	1.1	1.0	11.7	3.1	n.a.			
Jiangnan Mould-A	000700 CH	CNY	3.50	291.7	n.a.	n.a.	n.a.	1.2	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.			
Songz Automobi-A	002454 CH	CNY	4.90	17.4	6.5	n.a.	n.a.	0.9	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.			
Wanxiang Qian-A	000559 CH	CNY	5.54	21.1	21.3	19.8	17.9	2.9	n.a.	n.a.	n.a.	12.0	n.a.	n.a.			
Avic Electrome-A	002013 CH	CNY	7.22	31.4	26.5	22.6	19.5	2.8	2.6	2.3	2.0	9.6	0.4	14.1			
Lingyun Indust-A	600480 CH	CNY	8.08	13.5	14.8	12.3	9.5	0.9	0.9	0.8	0.7	5.9	n.a.	n.a.			
Ningbo Huaxian-A	002048 CH	CNY	13.89	11.9	10.7	9.3	7.8	1.1	1.1	1.0	0.8	13.4	2.6	n.a.			
Wanfeng Auto -A	002085 CH	CNY	7.24	16.5	n.a.	n.a.	n.a.	2.5	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.			
Zhejiang Yinlu-A	002126 CH	CNY	7.45	16.9	15.7	13.5	11.3	1.7	1.5	1.4	1.2	9.4	0.4	n.a.			
Zhejiang Asia -A	002284 CH	CNY	5.00	500.0	45.5	n.a.	n.a.	1.3	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.			
Xingmin Intel-A	002355 CH	CNY	6.78	n.a.	39.9	n.a.	n.a.	1.5	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.			
Ciwen Media Co L	002343 CH	CNY	8.65	n.a.	8.3	10.5	13.8	2.8	2.6	2.3	2.2	16.4	0.7	n.a.			
Changchun Fawa-A	600742 CH	CNY	12.29	11.8	11.6	10.1	9.2	1.3	1.2	1.1	1.1	12.4	n.a.	n.a.			
Huayu Autom-A	600741 CH	CNY	25.85	10.2	11.6	10.6	9.9	1.8	1.7	1.5	1.4	14.4	4.1	7.2			
Dongfeng Elect-A	600081 CH	CNY	12.24	26.1	25.0	n.a.	n.a.	3.0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.			
Greatoo Intellig	002031 CH	CNY	2.01	81.0	n.a.	n.a.	n.a.	1.4	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.			
Zhejiang Wanli-A	002434 CH	CNY	6.95	26.7	13.8	13.3	10.6	1.5	1.5	1.3	1.2	7.8	1.7	n.a.			
Xuchang Yuando-A	002406 CH	CNY	5.82	12.1	n.a.	n.a.	n.a.	1.3	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.			
Zhejiang Jingu-A	002488 CH	CNY	7.68	45.8	n.a.	n.a.	n.a.	1.9	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.			
Simple Average				64.3	18.7	13.1	11.8	1.7	1.6	1.4	1.3	11.3	1.8	10.7			
Weighted Average				28.5	13.8	10.5	9.5	1.9	1.2	1.1	1.0	9.9	1.9	4.4			
Denso Corp	6902 JP	JPY	4,596.00	11.2	14.1	12.1	11.0	1.0	1.0	0.9	0.9	8.1	3.0	5.0			
Keihin Corp	7251 JP	JPY	1,536.00	6.4	7.2	9.8	8.5	0.6	0.6	0.5	0.5	7.9	2.9	2.3			
Aisin Seiki Co	7259 JP	JPY	3,300.00	6.7	8.1	10.7	8.8	0.7	0.7	0.6	0.6	8.3	4.5	3.7			
Toyota Industrie	6201 JP	JPY	5,960.00	11.0	12.1	11.5	11.0	0.7	0.7	0.7	0.7	5.9	2.5	11.7			
Nok	7240 JP	JPY	1,552.00	7.6	78.5	15.1	10.9	0.6	0.6	0.6	0.6	2.2	3.2	3.4			
Stanley Elec Co	6923 JP	JPY	2,661.00	12.2	10.8	11.7	10.8	1.3	1.2	1.1	1.0	11.2	1.9	4.1			
Bridgestone Corp	5108 JP	JPY	4,096.00	10.6	10.2	9.9	9.2	1.3	1.2	1.1	1.1	12.1	3.9	5.3			
Sumitomo Rubber	5110 JP	JPY	1,231.00	8.9	9.6	9.3	8.7	0.7	0.7	0.6	0.6	7.2	4.5	4.9			
Toyota Boshoku	3116 JP	JPY	1,462.00	6.1	9.9	8.8	8.2	1.0	0.9	0.9	0.8	10.1	3.8	2.3			
Yokohama Rubber	5101 JP	JPY	2,080.00	9.4	7.6	8.0	7.5	0.9	0.8	0.8	0.7	11.2	3.1	5.9			
Jtekt Corp	6473 JP	JPY	1,186.00	8.2	16.5	11.9	10.1	0.8	0.8	0.7	0.7	7.8	3.7	4.6			
Nsk Ltd	6471 JP	JPY	903.00	6.9	8.4	13.7	12.4	0.9	0.9	0.8	0.8	10.3	4.4	4.8			
Hanon Systems	018880 KS	KRW	11,500.00	22.1	19.2	15.4	14.0	3.0	2.7	2.5	2.3	14.9	2.8	9.4			
Hankook Technolo	000240 KS	KRW	14,100.00	6.2	6.8	6.2	5.5	0.4	0.4	0.4	0.4	5.9	2.3	4.4			
Kumho Tire Co In	073240 KS	KRW	4,200.00	n.a.	n.a.	n.a.	n.a.	0.9	0.9	0.9	0.9	(5.1)	n.a.	11.2			
Hyundai Mobis	012330 KS	KRW	249,000.00	12.5	9.9	8.7	8.0	0.8	0.7	0.7	0.6	7.7	1.7	5.7			
Mando Corp	204320 KS	KRW	34,800.00	15.4	14.2	10.8	9.3	1.2	1.1	1.0	0.9	7.9	1.9	6.0			
Tong Yang Ind	1319 TT	TWD	45.90	14.1	12.7	11.5	11.0	1.3	1.2	1.2	1.1	9.5	4.4	6.6			
Cheng Shin	2105 TT	TWD	43.85	40.2	28.3	23.3	19.8	1.8	1.8	1.7	1.7	6.3	2.7	8.4			
Amer Axle & Mfg	AXL US	USD	7.21	n.a.	3.4	3.3	3.1	0.5	0.5	0.4	0.4	15.5	0.0	3.7			
Meritor Inc	MTOR US	USD	17.92	13.4	4.8	5.2	5.1	5.3	3.0	2.2	1.9	73.1	0.0	4.4			
Borgwarner Inc	BWA US	USD	35.09	7.9	9.1	8.4	7.4	1.7	1.5	1.3	1.3	17.4	1.9	5.3			
Johnson Controls	JCI US	USD	42.85	18.3	22.0	16.5	14.2	1.9	1.7	1.6	1.5	8.4	2.5	11.8			
Lear Corp	LEA US	USD	120.45	6.9	8.1	7.3	6.7	1.8	1.8	1.7	1.6	21.3	2.3	4.4			
Stoneridge Inc	SRI US	USD	32.00	16.8	19.7	15.6	13.6	3.2	2.9	2.7	n.a.	15.6	n.a.	n.a.			
Tenneco Inc-A	TEN US	USD	10.32	11.1	2.6	2.3	2.4	0.3	0.5	0.4	0.3	18.2	6.1	4.2			
Goodyear Tire	GT US	USD	12.29	4.2	8.0	5.9	5.9	0.6	0.6	0.6	0.6	6.9	5.3	4.9			
Cooper Tire & Ru	CTB US	USD	24.33	16.0	15.7	9.1	n.a.	1.0	1.0	0.9	n.a.	6.4	1.7	4.2			
Gentex Corp	GMTX US	USD	27.14	16.5	16.2	15.3	13.8	3.8	3.7	3.4	n.a.	23.0	1.7	n.a.			
General Motors C	GM US	USD	38.73	6.9	5.8	6.0	5.8	1.4	1.2	1.1	0.9	22.9	4.0	3.0			
Valeo Sa	FR FP	EUR	28.56	12.4	15.4	10.2	7.9	1.5	1.5	1.3	1.2	9.8	3.9	4.3			
Brembo Spa	BRE IM	EUR	8.90	12.2	12.9	11.9	11.7	2.4	2.2	1.9	1.7	17.8	2.5	6.4			
Faurecia	EO FP	EUR	44.32	8.7	8.6	7.7	6.9	1.6	1.6	1.4	1.2	18.0	3.0	3.8			
Autoliv Inc	ALV US	USD	74.17	33.9	12.5	10.5	9.2	3.4	2.7	2.3	2.0	24.6	3.3	7.0			
Continental Ag	CON GY	EUR	116.58	8.0	11.0	9.2	8.2	1.3	1.3	1.2	1.1	10.8	3.5	4.8			
Michelin	ML FP	EUR	99.34	10.7	9.2	8.6	7.9	1.5	1.4	1.2	1.1	15.1	4.1	4.8			
Simple Average				12.3	13.4	10.3	9.2	1.5	1.3	1.2	1.0	13.2	3.0	5.5			
Weighted Average				11.5	12.2	10.3	9.3	1.4	1.3	1.2	1.0	13.2	3.2	5.7			
Global Simple Average				31.5	14.0	10.7	9.5	1.4	1.5	1.3	1.2	13.4	3.0	7.7			
Global Weighted Average				16.7	16.1	13.6	12.3	1.8	1.6	1.5	1.3	16.5	3.9	7.6			

Source: Bloomberg, Guotai Junan International.

9 September 2019

Xiezhong International 协众国际 (03663 HK)

Company Report

**Financial Statements and Ratios**

Income Statement					
Year end 31 Dec (RMB m)	2017A	2018A	2019F	2020F	2021F
Total Revenue	930	924	2,194	2,531	2,944
Cost of sales	(784)	(754)	(1,901)	(2,186)	(2,533)
Gross profit	145	170	293	345	411
Other income and gains	4	17	14	13	15
Selling and distribution costs	(49)	(54)	(96)	(110)	(127)
Administrative expenses	(115)	(116)	(209)	(119)	(134)
Other operating expenses	(0)	(0)	(0)	(0)	(0)
Operating Profit	(15)	16	2	129	165
Net finance costs	(33)	(32)	(50)	(50)	(52)
Loss on FV changes of financial	0	0	(52)	(52)	(52)
Profit Before Tax	(48)	(16)	(100)	27	61
Income Tax	5	1	14	1	(2)
Profit After Tax	(42)	(15)	(86)	28	58
Non-controlling Interest	2	6	1	(0)	(1)
Shareholders' Profit / Loss	(40)	(9)	(85)	27	58
Basic EPS	(0.050)	(0.012)	(0.107)	0.034	0.072
Dividend per share (RMB)	0.000	0.000	0.000	0.044	0.092

Cash Flow Statement					
Year end 31 Dec (RMB m)	2017A	2018A	2019F	2020F	2021F
Profit before taxation	(48)	(16)	(100)	27	61
Depreciation and Amortisation	84	85	154	171	182
Other adjustments	59	35	206	105	107
Change in WC	103	61	(77)	64	(146)
Finance costs paid	(33)	(32)	(50)	(50)	(52)
Income tax paid	(7)	(4)	(3)	24	(5)
Cash from Operating Activities	159	129	131	340	147
Capital expenditure	(187)	(272)	(252)	(289)	(174)
Decrease/(increase) of pledged	0	0	0	0	0
Others	1	28	1	1	1
Cash from Investing Activities	(186)	(245)	(252)	(289)	(174)
Net change in bank loans and other	(21)	170	102	(27)	(1)
Dividend paid	0	0	0	0	(36)
Issue of Share	(8)	(2)	0	0	0
Cash from Financing Activities	(28)	168	102	(27)	(37)
Cash at Beg of Year	76	21	73	54	80
Net Changes in Cash	(56)	52	(19)	25	(63)
Effect of FX rate changes	1	0	0	0	0
Cash at End of Year	21	73	54	80	16

Source: the Company, Guotai Junan International.

Balance Sheet					
Year end 31 Dec (RMB m)	2017A	2018A	2019F	2020F	2021F
Property, plant & equipment	705	987	1,079	1,194	1,181
Intangible assets	81	271	279	284	290
Lease prepayment	61	69	67	65	63
Other non-current assets	184	404	97	100	99
Total Non-current Assets	1,032	1,730	1,522	1,643	1,633
Cash & Cash Equivalents	21	73	54	80	16
Pledged deposits	23	64	74	79	86
Inventories	238	344	644	792	888
Trade and other receivables	651	718	1,391	1,535	1,826
Amount due from related parties	122	183	152	168	160
Total Current Assets	1,055	1,382	2,315	2,653	2,977
Total Assets	2,087	3,111	3,837	4,296	4,610
Trade and other payables	655	824	1,634	2,011	2,254
Amounts due to related parties	31	39	39	39	39
Interest-bearing borrowings	434	893	873	898	943
Income tax payables	0	25	12	25	28
Provision for product warranty	4	4	10	11	13
Total Current Liabilities	1,124	1,786	2,568	2,984	3,277
Interest-bearing borrowings	112	100	317	319	324
Deferred income	29	28	28	28	28
Deferred tax liabilities	0	49	26	37	31
Total Non-current Liabilities	140	524	554	568	567
Total Liabilities	1,265	2,309	3,121	3,552	3,844
Total Shareholders' Equity	792	778	693	720	741
Minority Interest	30	24	23	23	24
Total Equity	822	802	716	743	765
BPS (RMB)	0.990	0.973	0.866	0.900	0.927

Financial Ratios					
	2017A	2018A	2019F	2020F	2021F
Gross margin (%)	15.6	18.4	13.4	13.6	14.0
Operating margin (%)	(1.6)	1.8	0.1	5.1	5.6
Net margin (%)	(4.3)	(1.0)	(3.9)	1.1	2.0
ROA (%)	(2.0)	(0.4)	(2.5)	0.7	1.3
ROE (%)	(5.0)	(1.2)	(11.6)	3.9	7.9
Gearing ratio (%)	66.5	122.7	168.9	163.6	174.8
Current ratio(x)	0.9	0.8	0.9	0.9	0.9
Interest coverage(x)	(0.5)	0.5	(1.0)	1.5	2.2
Inventory turnover days	106.5	140.9	123.7	132.3	128.0
Trade receivable days	251.2	271.3	231.3	221.3	226.3
Trade payable days	269.2	358.0	313.6	335.8	324.7
Sales volume growth (%)	13.8	(9.5)	13.3	11.8	13.7
Revenue growth (%)	3.7	(0.6)	137.5	15.3	16.3
Operating profit growth (%)	(124.6)	(208.3)	(88.0)	6415.0	28.1
Net profit growth (%)	(193.1)	(77.1)	824.8	(132.1)	110.2
EPS Growth (%)	(193.1)	(77.1)	824.8	(132.1)	110.2



### Company Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating		Definition
Buy	买入	Relative Performance > 15%; or the fundamental outlook of the company or sector is favorable.
Accumulate	收集	Relative Performance is 5% to 15%; or the fundamental outlook of the company or sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the company or sector is neutral.
Reduce	减持	Relative Performance is -5% to -15%; or the fundamental outlook of the company or sector is unfavorable.
Sell	卖出	Relative Performance < -15%; or the fundamental outlook of the company or sector is unfavorable.

### Sector Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating		Definition
Outperform	跑赢大市	Relative Performance > 5%; or the fundamental outlook of the sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the sector is neutral.
Underperform	跑输大市	Relative Performance < -5%; Or the fundamental outlook of the sector is unfavorable.

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