

China
NON RATED

Current price:	Rmb31.23
Consensus Tgt Price:	Rmb52.50
Up/downside:	N/A
Reuters:	300014.SZ
Bloomberg:	300014 CH
Market cap:	US\$4,248m
	Rmb30,266m
Average daily turnover:	US\$110.3m
	Rmb785.3m
Current shares o/s:	851.8m
Free float:	60.02%



Source: Bloomberg

Price performance	<i>1M</i>	<i>3M</i>	<i>12M</i>
Absolute (%)	-12	6.8	113.5
Relative (%)	-14.3	8.4	109.1

Major shareholders	% held
CEO and affiliates	32.98

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EVE Energy

Positive outlook for the lithium battery business; potential regulatory risk for the e-cigarette segment

- We visited EVE Energy last week to discuss with management its business growth outlook for 2019–2020.
- Management gave positive guidance for its core lithium battery business growth outlook in 2019–2020, citing energy storage, power battery and IoT applications as the main drivers of business growth.
- Its fast-growing e-cigarette business (50% of total profit in 2018) might suffer from regulation risks in the near term.

Leading player in the lithium battery and e-cigarette industry

EVE Energy, founded in 2001, specializes in the production and sales of lithium battery products for use in smart meters, smart transportation, automotive electronics, the Internet of Things (IoT), consumer electronics, new energy vehicles (NEVs), and energy storage. The Company is also engaged in the production and sales of atomization products for e-cigarette companies through its 37.6% shareholding (as at end-1H19) in Shenzhen Smoore Technology (Smoore). Smoore is currently in the process of applying for an IPO in the Hong Kong market. The e-cigarette business, which has been booked under associate income since 2H17, generated about 50% of its earnings in 2018.

Multiple demand growth drivers for its core battery business

Management expects its primary lithium battery business revenue to reach Rmb2.1–2.3bn in 2019, implying >80% yoy growth. This growth will be driven by rising ETC (electronic toll collection) applications, as the central government intends to implement ETC nationwide on highways by the end of 2019. Management guided that its lithium-ion battery business revenue will grow >50% yoy to Rmb4.9–5.0bn in 2019, led by consumer electronics and NEVs. Management remains confident about its primary lithium battery business growth outlook, citing China's plans for large-scale development of its 5G network, which will provide demand growth opportunities for its products for IoT and energy storage. Its power battery products will also see revenue growth from its sales to Daimler and Kia from 2020. Management estimated that total revenue in 2020 would grow >50% yoy to Rmb10bn. The Company will seek higher-quality earnings growth by focusing on larger customers, so we expect stable margins in 2019–2020.

E-cigarette business growth subject to some regulatory risks

Its e-cigarette business revenue grew 100% p.a. over the past three years, led by the rising popularity of e-cigarettes. Smoore is the market leader in supplying atomization products to e-cigarette companies worldwide. E-cigarette demand growth should be sustainable because of 1) replacement demand from old smokers, and 2) incremental demand from young people who just follow the fashion. But recent industry news indicates e-cigarette might be harmful to people's health, so the US and other countries may consider banning e-cigarettes and its business might suffer from regulatory risks. But the impact is likely not that substantial according to management, as 1) tougher regulations might change industry dynamics, but emerging new market players will still have to rely on Smoore to supply the atomization products; and 2) tougher regulations are likely only for flavored e-cigarettes, which account for only 30% of e-cigarette sales.

Share price performance recently affected by regulatory concerns

The Company's share price more than doubled over the past 2–3 years, led by strong market expectations for its e-cigarette business. But the share price recently fell c30% due to unfavorable industry news. The stock is trading at 19x 2020F P/E based on market consensus with a EPS growth of 34%. However, the EPS growth will depend on whether there are tighter regulations on e-cigarette..

Financial Summary	Dec-16A	Dec-17A	Dec-18A	Dec-19F	Dec-20F
Revenue (Rmb m)	2,340	2,982	4,351	6,585	9,202
Net Profit (Rmb m)	252	403	571	1,190	1,604
EPS (Rmb)	0.59	0.47	0.67	1.23	1.65
EPS Growth	55.3%	-20.3%	42.6%	83.1%	34.4%
P/E (x)	51.02	64.04	44.93	25.53	18.99
P/Bv (x)	6.61	8.36	7.23	5.20	4.19
DPS (Rmb)	0.12	0.10	0.00	0.21	0.25
Dividend Yield	0.4%	0.3%	0.0%	0.7%	0.8%
Net Gearing	7.7%	25.7%	15.8%	15.8%	15.8%
ROE	13.0%	13.1%	16.0%	22.2%	23.4%

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG
 Note: 2019-2020 forecast are based on Bloomberg consensus.

Company overview

EVE Energy was founded in 2001 and listed on the Shenzhen Stock Exchange in 2009. The Company specializes in the production and sales of primary lithium batteries and lithium-ion battery products, which contributed 28% and 72% of its total sales in 2018, respectively. Its primary lithium battery products are used mainly in fields such as smart meters, smart transportation, automotive electronics and the Internet of Things (IoT). The lithium-ion battery business sells products mainly to end-users in the consumer electronics, NEV and energy storage industries. It sells power battery products to domestic OEMs, like Geely, Yutong and Kinglong. It is the fifth largest power battery producer in the China market in terms of power battery product installations. The Company aims to become the No 1 player in the NCM pouch battery segment through its cooperation with SK Innovation. The JV will start commercial production in 2020 for sales to Daimler and Kia. The Company has expanded in overseas markets, which represented 19% of its total revenue in 2018.

Apart from its core battery business, the Company is engaged in the production and sales of atomization products for e-cigarette companies through its associate company, Smoore, in which it held a 37.6% equity stake as at the end of 1H19. It acquired a 50.1% equity stake in Smoore in 2014. It consolidated Smoore in its financial statements between from 2014 to 1H17. Since 2H17, it has booked Smoore as an associate company in its financial statements. In 2018, the profit contribution from Smoore reached Rmb298m, 49% of EVE Energy's profit before tax. Smoore is currently in the process of applying for a listing in Hong Kong market.

Figure 1: Key shareholding structure of EVE Energy as at the end of 1H19

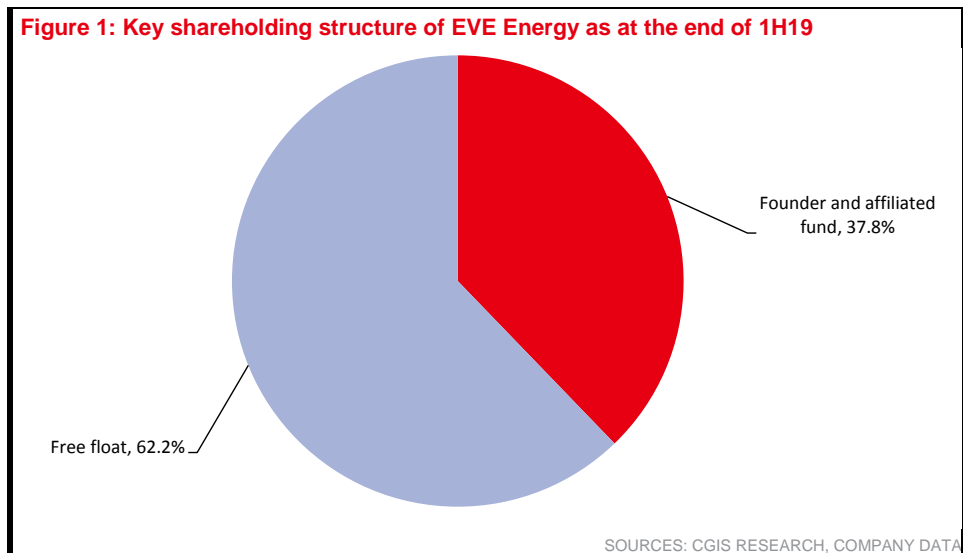
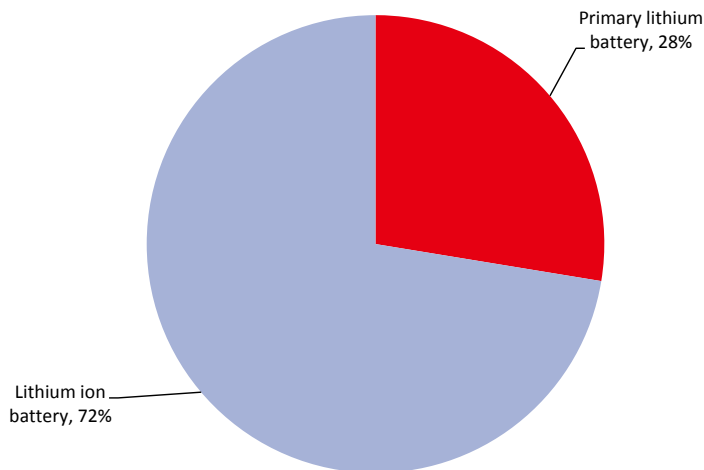


Figure 2: EVE Energy's 1H19 results overview

Rmb m	1H19	1H18	% YoY
Primary lithium battery	656	614	6.7%
Lithium ion battery	1,874	1,269	47.6%
Revenue	2,530	1,884	34.3%
COGS	-1,884	-1,401	34.5%
GP	646	482	33.8%
<i>GPM</i>	25.5%	25.6%	-0.1%
SG&A	-372	-302	23.2%
Other gains and losses	-80	-45	78.4%
OP	194	135	42.9%
<i>OPM</i>	7.7%	7.2%	0.5%
Financing cost	-57	-41	38.5%
Profit contribution from associates	368	79	363.6%
PBT	505	174	190.5%
Tax	5	-10	na
<i>Effective tax rate</i>	-0.9%	6.0%	-7.0%
PAT	509	163	212.0%
<i>NPM</i>	20.1%	8.7%	11.5%
Minority interest	-9	-4	-432.1%
Profit to common shareholder	501	159	215.2%

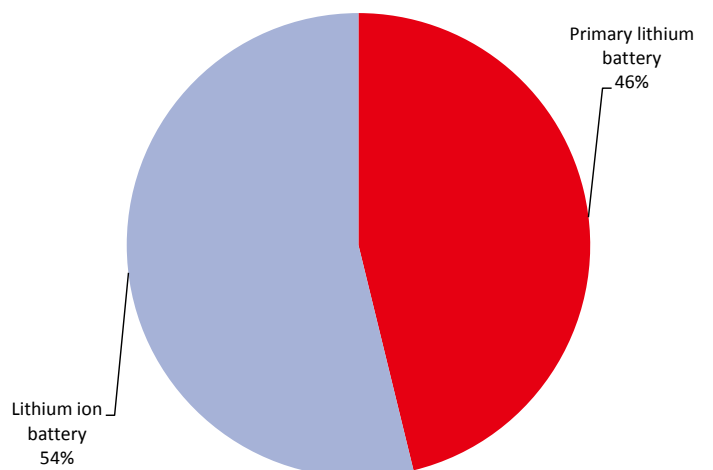
SOURCES: CGIS RESEARCH, COMPANY DATA

Figure 3: EVE Energy's revenue mix in 2018



SOURCES: CGIS RESEARCH, COMPANY DATA

Figure 4: EVE Energy's gross profit mix in 2018



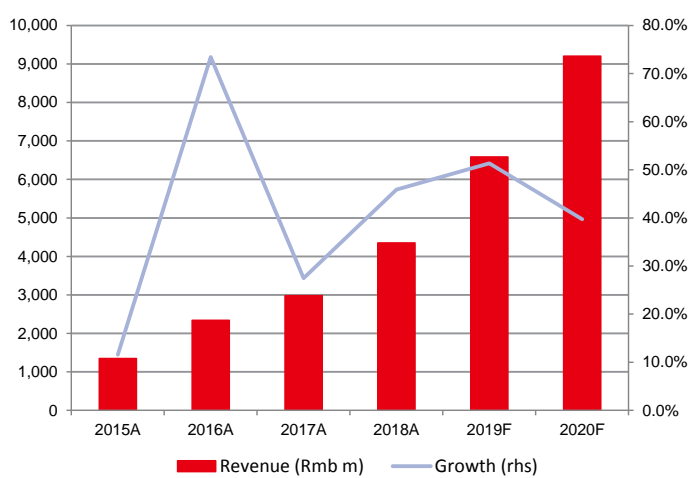
SOURCES: CGIS RESEARCH, COMPANY DATA

Figure 5: EVE Energy's key product offerings

Product	Key User Industry
Primary Lithium Battery	Smart meter, smart transportation, automotive electronics and other applications related to IoT
Lithium-ion Battery	NEVs, electric forklifts, electric ships, telecom energy storage, distributed energy storage, etc.

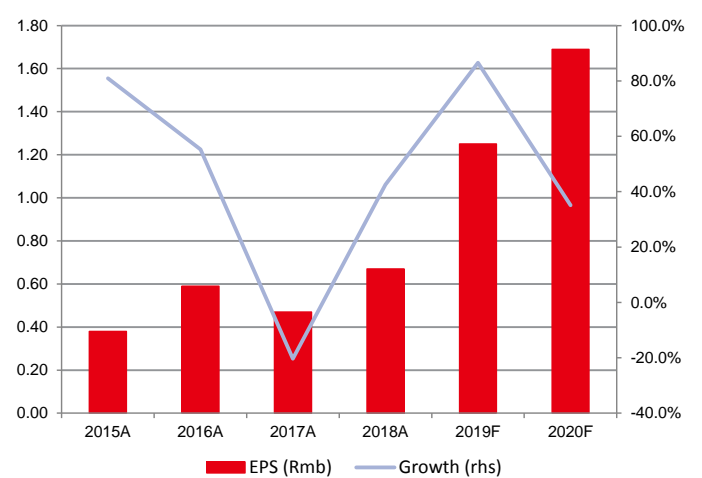
SOURCES: CGIS RESEARCH, COMPANY DATA

Figure 6: EVE Energy's revenue growth trend

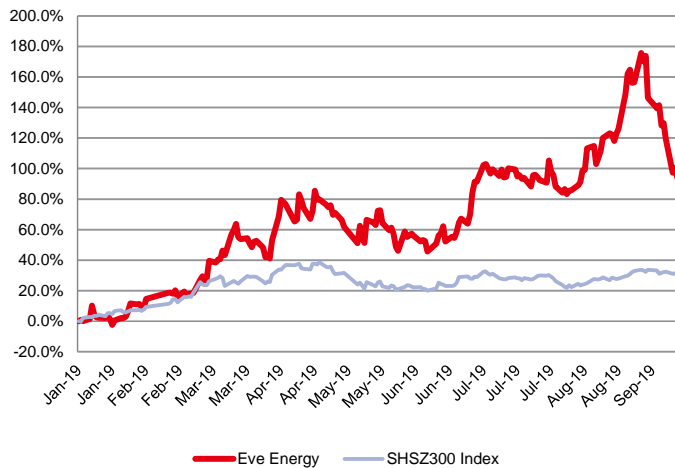


SOURCES: CGIS RESEARCH, COMPANY DATA

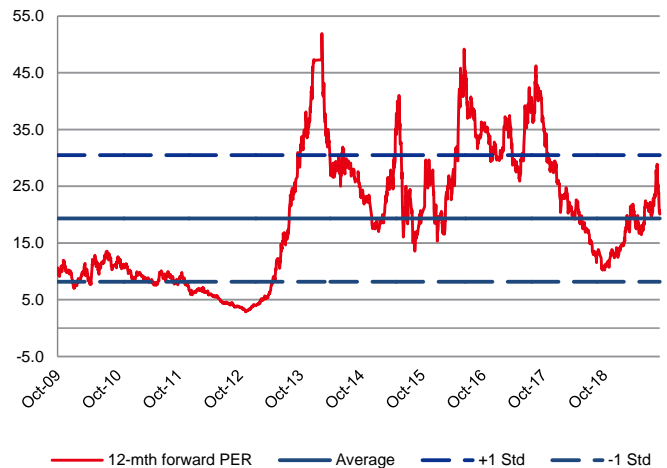
Figure 7: EVE Energy's EPS growth trend



SOURCES: CGIS RESEARCH, COMPANY DATA

Figure 8: EVE Energy's share price performance CYTD


SOURCES: CGIS RESEARCH, BLOOMBERG

Figure 9: EVE Energy's 12-mth forward P/E band


SOURCES: CGIS RESEARCH, BLOOMBERG

Figure 10: Peer comparison

	Ticker	Mkt cap US\$ m	Price (lc)	PER			EPS growth			PEG		P/B			Yield			ROE		
				2018	2019E	2020E	2018	2019E	2020E	2019E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	
Power Battery																				
EVE Energy	300014 CH	4,243	31.23	44.9	25.5	19.0	42.6%	83.1%	34.4%	0.3	7.2	5.2	4.2	0.0%	0.7%	0.8%	16.0%	22.2%	23.4%	
CATL	300750 CH	22,122	71.45	43.5	37.8	31.1	-18.3%	15.2%	21.7%	2.5	4.8	4.3	3.8	0.2%	0.2%	0.3%	10.3%	11.3%	12.2%	
Guoxuan	002074 CH	2,030	12.74	25.0	23.3	18.8	-46.3%	7.1%	23.8%	3.3	1.7	1.6	1.5	0.8%	0.8%	0.8%	10.9%	12.0%	14.9%	
Xinwangda	300207 CH	3,138	14.46	30.1	23.7	17.6	11.6%	26.9%	34.8%	1.0	4.2	3.6	3.1	0.9%	0.9%	1.2%	13.9%	15.3%	17.3%	
Penghui	300438 CH	711	18.05	19.0	13.0	10.4	3.3%	46.1%	24.6%	0.3	2.3	2.0	1.7	0.3%	na	na	12.0%	15.0%	16.0%	
E-Cigarette																				
Xiamen Intretech	002925 CH	2,556	39.80	22.0	18.1	14.9	-30.1%	21.3%	22.1%	0.9	4.9	4.2	3.6	2.5%	na	na	22.1%	23.0%	24.2%	
Shenzhen Jinjia	002191 CH	2,023	9.85	20.1	16.3	13.5	14.0%	23.7%	20.0%	0.7	2.2	2.1	1.9	3.0%	3.2%	3.7%	11.1%	12.6%	13.8%	
Shanghai Shunho	002565 CH	988	6.65	68.8	60.5	51.2	-3.4%	13.8%	18.2%	4.4	3.3	na	na	2.0%	na	na	4.8%	na	na	
O-Net Tech	877 HK	421	4.02	11.5	12.2	11.1	25.0%	-5.7%	9.7%	-2.1	1.4	1.3	1.2	0.5%	0.5%	0.6%	12.4%	10.6%	10.5%	
Flavors & Fragrance	3318 HK	206	1.80	11.3	13.8	12.0	-16%	-19%	15%	-0.7	0.6	0.6	0.6	1.9%	2.2%	2.2%	5.5%	4.2%	4.7%	
China Tobacco Int'l	6055 HK	1,915	21.70	na	58.6	54.3	na	na	8.1%	na	na	na	na	na	na	na	na	na	na	

SOURCES: CGIS RESEARCH, BLOOMBERG

Note: EVE Energy's earnings forecast is based on Bloomberg consensus. Companies covered by CGIS are highlighted. Share price is using closing price on 26 September 2019.

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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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