

# Outperform

(maintained)

## National Defense

### Key Data

Jan. 23, 2020

|                         |          |
|-------------------------|----------|
| Closing Price           | 31.07    |
| Total Shares (Mn)       | 936.38   |
| Shares Outstanding (Mn) | 733.76   |
| Market Cap(CNY/Mn)      | 29093.45 |
| Market Float(CNY/Mn)    | 22797.88 |
| Net Assets (CNY/Mn)     | 3586.08  |
| Total Assets (CNY/Mn)   | 4259.95  |
| BVPS                    | 3.83     |

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### Group Member

## Wuhan Guide Infrared

(002414.SZ)

### Infrared Screeners Play a Vital Role, Civil Medical Treatment and Military Demand Support Expansion

11-Feb-20

### Key Financial Indicators

| FY                    | 2018A  | 2019E | 2020E  | 2021E |
|-----------------------|--------|-------|--------|-------|
| Revenue (Mn/CNY)      | 1084   | 1571  | 2703   | 3243  |
| YoY (%)               | 6.6%   | 45.0% | 72.0%  | 20.0% |
| Net Profit (Mn/CNY)   | 132    | 212   | 549    | 660   |
| YoY (%)               | 126.0% | 60.6% | 158.9% | 20.2% |
| Gross Margin (%)      | 42.1%  | 49.0% | 55.0%  | 55.4% |
| Net Profit Margin (%) | 12.2%  | 13.5% | 20.3%  | 20.3% |
| ROE (%)               | 3.9%   | 6.0%  | 13.5%  | 14.2% |
| EPS (CNY)             | 0.14   | 0.23  | 0.59   | 0.70  |
| OCFPS (CNY)           | 0.31   | 0.43  | 0.21   | 0.40  |

### Company Profile

Wuhan Guide Infrared Co., Ltd is a China-based company, principally engaged in the research and development, manufacture and distribution of infrared thermal imagers and integrated photovoltaic systems. The Company is also engaged in the provision of traditional ammunition and information ammunition and technology services, and house leasing business. The Company distributes its products within domestic market and to overseas markets. (Source: Reuters)

### Investment Highlights

**The intelligent infrared automatic fever screening system provided by Wuhan Guide Infrared (the company) has the functions of automatic search and pre-warning for large-scale population.**

In 2003 when the SARS broke out, most of China's airports, harbors and train stations were equipped with such a system, which played an important role in building an epidemic surveillance network and successfully defeated the epidemic.

The company's official WeChat account reported that employees on key positions had no rest during the Spring Festival holiday and production staff worked 24-hour shifts to produce infrared fever screener. "Contactless temperature measurement", "real-time temperature measurement of large-scale population" and "automatic fever screening" constitute the primary reasons for building the first defensive line in preventing and controlling Novel Coronavirus Pneumonia (NCP).

Until now, the company has installed thousands of products in crowded public areas, such as hospitals, stations and airports in Beijing, Shanghai, Guangdong, Fujian, Zhejiang, Jiangsu, Sichuan, Yunnan and Anhui. And the company has initiated task of producing 15,000 imagers with a daily capacity of 1000 during the holiday.

**The infrared focal plane detector chip is the core component of an infrared quick temperature screener.**

Wuhan Guide Infrared, as one of China's few enterprises possessing R&D and production ability of infrared focal plane detector chip, relies on independent and controllable production of core components, so that its mass production will not be limited in case of terminal demand explosion. According to the official WeChat account, the company's quick fever screening system uses its self-produced infrared detectors with proprietary intellectual property rights.

Since December 19th, 2019, the company announced that it had received 4 contracts of military products with a total of CNY 611 mn, accounting for 56% of operating revenue of 2018.

We believe that on the backdrop of completing tasks of the thirteenth Five-Year Plan on time and



with increasing procurement demand for non-main battle equipment, the company will realize sustainable development of new products in new fields and is expect to become one of the companies with most elasticity in non-main battle equipment sector in 2020. Urgent demand in military and civil markets will more strongly secure the company's 2020 earnings performance.

**Earnings forecast and investment recommendation**

We estimate net profit attributable to shareholders to be CNY 212/549/660 mn for year 19/20/21, implying a P/E ratio of 137x/53x/44x (based on the closing price of Jan 23rd, 2020) and maintain "Outperform" rating for the company.

**Potential risks:** real demand for military products and earnings growth may fail expectation; civil market may grow slowly.

*This English translation of the original Chinese version <红外筛查仪发挥重要作用 民用医疗叠加军品需求扩容> issued by Industrial Securities on February 2, 2020 is for information purpose only. In case of a discrepancy, the Chinese original will prevail.*



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### Industry Investment Rating

When measuring the difference between the markup of the industry index and that of the market's benchmarks (Shanghai Composite Index/Shenzhen Component Index) within twelve months after the release of the report, we define the terms as follows:

- **Overweight:** Industry performs better than that of the whole market;
- **Neutral:** Industry performs about the same as that of the whole market;
- **Underweight:** Industry performs worse than that of the whole market

### Company Investment Rating

When measuring the difference between the markup of the company stock price and that of the market's benchmarks (Shanghai Composite Index/Shenzhen Component Index) within twelve months after the release of this report, we define the terms as follows:

- **Buy:** With a markup more than 15% better than that of the market;
- **Outperform:** With a markup 5% to 15% better than that of the market;
- **Neutral:** With a markup less than 5% better or worse than that of the market;
- **Underperform:** With a markup more than 5% worse than that of the market.

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