

L.K. Technology (558 HK)

Beneficiary of new energy vehicles capex growth

With an estimated market share of 60% in die-casting machinery in China, LK will not only benefit from strong recovery of auto capex, but also the rising trend of replacement of welding by die-casting. Besides, the new components used in new energy vehicles will likely drive additional demand for die-casting machines. At present, LK has solid backlog covering the capacity until year end. LK targets to achieve 30% revenue CAGR over the coming few years. Share price surged 17x over the past six months, driven by the overall demand recovery and orders from a major US new energy vehicles manufacturer. Stock is trading at 6x historical P/B, far higher than any period in the Company's history.

- **Company background.** Founded in 1979, LK is a leading player in the manufacturing of die-casting machines. The Company also produces plastic injection molding machines and CNC machining centers. LK has six production plants in Mainland China, one in Taiwan and one in Italy (IDRA, acquired by LK in 2008).
- **Large size die-casting machine to benefit from the continuous trend of light weighting.** Die-casting machine is the largest revenue driver for LK (64% of total revenue in 1HFY21). Around 60% of the die-casting machine demand come from automobile (both leading OEM and component makers). One of the key competitive edges of LK is the capability to produce 6,000-tonnes die-casting machine. Large size machine can be used to perform die-casting of aluminum alloy for the car body and parts, which is expected to replace steel welding. Such process can help achieve light weighting in automobile.
- **New energy vehicle a new growth driver.** Die-casting machine can be applied in the production of traditional auto parts such as engine cylinder and gearbox. NEV offers additional demand growth as more die-casting machines will be needed in the production of NEV components such as car body and battery case. We understand that LK has received orders for 6,000-tonne machines from the major NEV manufacturer in the US. We expect further order intake from this customer going forward.
- **Plastic injection molding machine.** This is the second revenue driver for LK (33% of total revenue in 1HFY21). There is a wide range of downstream applications including automobile, home appliance, container box, telecommunication, medical and toys. For example, Motherson Auto, a component maker, is one of the customers of LK.

Earnings Summary

| (YE 31 Mar) | FY18A | FY19A | FY20A |
|----------------------|-------|--------|--------|
| Revenue (HK\$ mn) | 3,729 | 3,604 | 2,746 |
| YoY growth (%) | 15.6% | -3.3% | -23.8% |
| Net income (HK\$ mn) | 242 | 191 | 3 |
| EPS (HK\$) | 0.217 | 0.160 | 0.003 |
| YoY growth (%) | 76.4% | -26.3% | -98.1% |
| Consensus EPS (HK\$) | NA | NA | NA |
| P/E (x) | 47 | 63 | 3,367 |
| P/B (x) | 5 | 6 | 6 |
| Yield (%) | 1.0 | 0.5 | 0.0 |
| ROE (%) | 12.2 | 8.7 | 0.2 |
| Net gearing (%) | 46.9 | 51.9 | 52.9 |

Source: Company data, Bloomberg, CMBIS

NOT RATED

Current Price

HK\$10.10

China Capital Goods

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Stock Data

| | |
|--------------------------|-----------|
| Mkt Cap (HK\$ mn) | 12,032 |
| Avg 3 mths t/o (HK\$ mn) | 45 |
| 52w High/Low (HK\$) | 10.18/0.3 |
| Total Issued Shares (mn) | 1,191 |

Source: Bloomberg

Shareholding Structure

| | |
|--------------|-------|
| Liu's family | 65.4% |
| Others | 34.6% |

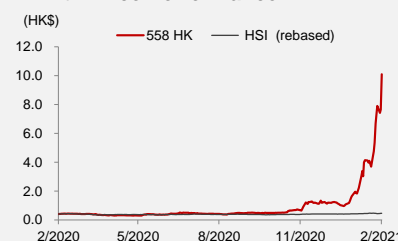
Source: HKEx

Share Performance

| | Absolute | Relative |
|-------|----------|----------|
| 1-mth | 367% | 334% |
| 3-mth | 1009% | 827% |
| 6-mth | 1700% | 1414% |

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PricewaterhouseCoopers

- **Disposal of land use right and factory relocation.** In Jan, LK announced that it reached an agreement with Shenzhen Wanjin Investment (a company that is owned as to 51% by Shenzhen Vanke). LK will sell the land use rights and certain building located at Longhua District in Shenzhen. The area is part of the manufacturing plant of LK's die-casting machines. The total consideration (including cash and the value of redeveloped properties) amounted to RMB1.6bn (or HK\$1.91bn). LK is expected to record a disposal gain of HK\$1.87bn. At the same time, LK plans to relocate the manufacturing plant to Shen-Shan Special Cooperation Zone. LK believes the relocation will increase the production capacity.

Figure 1: LK's die-casting machine

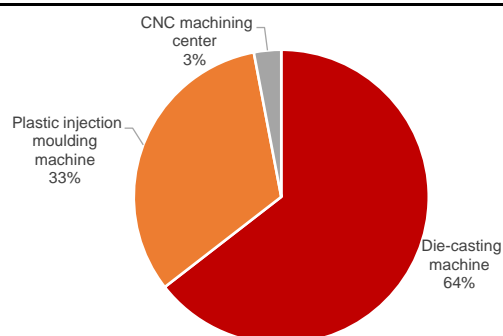

Source: Company data, CMBIS

Figure 2: LK's plastic injection molding machine


Source: Company data, CMBIS

Figure 3: LK's vertical machining center


Source: Company data, CMBIS

Figure 4: Revenue breakdown (1HFY21)


Source: Company data, CMBIS

Figure 5: LK's revenue and segment results breakdown

| Mar year end (HK\$ mn) | FY18 | FY19 | FY20 | 1HFY20 | 1HFY21 |
|------------------------------------|--------------|--------------|---------------|---------------|--------------|
| Revenue | | | | | |
| Die-casting machine | 2,508 | 2,553 | 1,890 | 971 | 1,119 |
| Plastic injection moulding machine | 1,079 | 949 | 756 | 438 | 564 |
| CNC machining center | 142 | 103 | 99 | 47 | 52 |
| Total | 3,729 | 3,604 | 2,746 | 1,455 | 1,735 |
| Revenue growth | | | | | |
| Die-casting machine | 11.9% | 1.8% | -26.0% | -28.7% | 15.3% |
| Plastic injection moulding machine | 27.1% | -12.1% | -20.3% | -12.7% | 28.9% |
| CNC machining center | 4.9% | -27.6% | -3.1% | -27.9% | 10.6% |
| Average | 15.6% | -3.3% | -23.8% | -24.5% | 19.2% |
| Segment results | | | | | |
| Die-casting machine | 344 | 355 | 180 | 78 | 156 |
| Plastic injection moulding machine | 97 | 43 | 2 | 24 | 44 |
| CNC machining center | -8 | -34 | -18 | -8 | -6 |
| Total | 432 | 363 | 163 | 93 | 194 |
| Segment margin | | | | | |
| Die-casting machine | 13.7% | 13.9% | 9.5% | 8.0% | 13.9% |
| Plastic injection moulding machine | 9.0% | 4.5% | 0.2% | 5.4% | 7.9% |
| CNC machining center | -5.9% | -33.0% | -18.2% | -16.8% | -12.1% |
| Average | 11.6% | 10.1% | 5.9% | 6.4% | 11.2% |

Source: Company data, CMBIS

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