

24 Apr, 2023

Intron | 01760.HK

Realization of the high-growth story

STOCK RATING

BUY

TARGET PRICE

HK\$ 7.76

Intron (01760HK) achieved a revenue of RMB 4,829.9mn for the year ended Dec 2022, slightly lower than our estimate, but it recorded a surprising gross margin of 21.5%, resulting in a YoY 105.3% growth in the bottom-line.

Encouraging performance in the new energy business segment: Thanks to the robust sales of EV in China in 2022, the new energy business segment of Intron (01760.HK) rallied YoY 91.0%, contributing 42.8% (2021: 34.1%) to the total revenue. According to the CPCA, the growth of the retail sales of EV and PV was YoY 22.8% and YoY -13.1% respectively in 2023 Q1, and the penetration rate of EV remained solid despite the decelerating growth. Being a supplier of most of the big players in China, we expect that the Group will continue to grow together with the market expansion.

Neutral impacts caused by the price cut of Tesla: The business environment for new energy vehicle manufacturers becomes difficult due to the price cut of Tesla in China, it imposes pressure on the sales of EV made by other brands in the short term. However, we believe that is a neutral signal to Intron (01760.HK) in the longer term because the manufacturers, instead of absorbing the loss, will likely upgrade the technology to avoid further price competition as well as to sustain their sales. Intron (01760.HK), thus, plays a critical role in assisting the manufacturers i) to upgrade the technology without significant capital investment input, and ii) to respond to the market quickly through the cooperation between the manufacturers and the closest R&D centers among 16 R&D centers across China.

Realization of the high-growth story: We maintain our positive view on Intron (01760.HK) due to the i) continuous delivery of resilient results, and ii) booming market trend of NEV and ADAS. Besides, based on the fact that i) the ~22% gross margin is not sustainable due to the adoption of the "Cost+" pricing strategy, ii) the rocketing receivables, inventories as well as the R&D expenses are booming, iii) the hiking interest rate environment is not favourable for re-financing, and iv) the labour cost surges materially for team expansion, we are now more concern about the cash flow of the Group, but it is not a primary risk yet because those factors are unavoidable during expansion. Therefore, we maintain the TP at HKD 7.76/share, implying 15.8x/13.3x/11.3x forward P/E of 2023/2024/2025, reiterating "BUY".

COMPANY UPDATE

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Intron (01760.HK)

Stock Rating BUY (BUY)

Target Price HK\$ 7.76 (HK\$ 7.76)

Current Price HK\$ 5.52

52-Week Range HK\$ 2.87 – 7.55

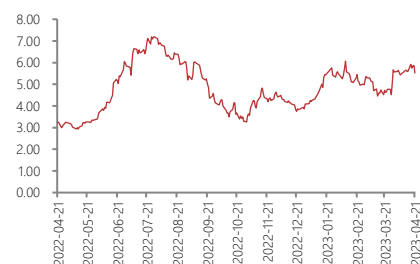
Market cap. (HKD, bn) 6.0

RMB, mn	22(A)	23(E)	24(E)	25(E)
Revenue	4,829.9	6,296.0	7,347.6	8,378.9
Gross Profit	1,040.6	1,278.5	1,486.4	1,710.8
Gross Margin	21.5%	20.3%	20.2%	20.4%
Net Profit	411.1	467.6	552.4	653.6
EPS	0.382	0.430	0.508	0.601
P/S	1.1	0.8	0.7	0.6
P/E	12.4	11.2	9.5	8.0
ROE	21.1%	20.1%	20.2%	20.4%

Performance 1 mth 3 mth 6 mth 1 year

Absolute 16.9% 1.7% 50.4% 69.6%

Relative to HSI 12.7% 10.6% 26.6% 72.6%



Peers comparison

		Mkt. Cap.	P/E	Fw. P/E	P/B	P/S	Revenue	GM	ROE
		(HKD, mn)	(%)	(%)	(%)	(%)	(HKD, mn)	(%)	(%)
00175.HK	Geely Auto	97,250.9	16.4	14.4	1.2	0.6	172,295.4	14.1	7.6
01958.HK	BAIC	17,633.7	3.7	3.9	0.3	0.1	221,781.5	22.2	7.8
02238.HK	GAC Group	103,876.8	5.5	-	0.4	0.4	128,095.5	7.5	7.9
02333.HK	Greatwall Motor	213,093.7	10.7	-	1.1	0.5	159,923.6	19.4	10.6
	<i>Average – Traditional</i>								
	<i>manufacturers</i>	107,963.8	9.1	9.2	0.7	0.4	170,524.0	15.8	8.5
01211.HK	BYD	745,908.8	34.1	33.0	5.1	1.3	493,791.5	17.0	16.1
02015.HK	Li Auto	184,355.5	-	-	-	-	52,733.6	19.4	(4.7)
09866.HK	Nio	107,498.8	-	-	-	-	57,370.1	10.4	(49.7)
09868.HK	XPeng	62,585.7	-	-	1.2	2.1	31,271.1	11.5	(23.1)
	<i>Average – New energy car</i>								
	<i>manufacturers</i>	275,087.2	34.1	33.0	3.2	1.7	158,791.6	14.6	(15.3)
IFNNY.US	Infineon	390,047.1	-	14.4	-	-	120,527.5	43.1	20.0
MCHP.US	Microchip	330,150.0	20.4	12.2	6.7	5.3	53,098.0	65.2	34.2
NXPI.US	NXP	346,139.5	13.6	13.7	5.9	3.4	103,403.6	56.9	39.9
ON.US	On								
	Semiconductor	249,740.6	14.5	16.7	5.1	3.8	65,199.4	49.0	35.3
STM.US	STMicroelectronics	339,059.6	-	11.5	-	-	126,292.5	47.3	36.2
	<i>Average – Semiconductor</i>								
	<i>suppliers</i>	331,027.4	16.2	13.7	5.9	4.2	93,704.2	52.3	33.1
01760.HK	Intron	6,012.6	12.7	9.7	2.5	1.1	5,624.2	21.5	21.4

Source: Bloomberg, West Bull Securities

Risk factors

- A significant drop in the sales of local manufacturers' EV caused by the price war
- Longer cash conversion cycle due to the liquidity issues of local manufacturers
- Erosion of profit margin caused by hiking interest rates and growing borrowings
- Slower-than-expected penetration of ADAS
- A drop in the net margin due to the team expansion

Financial Statement

PnL					Balance Sheet				
(RMB, mn)	2022 (A)	2023 (E)	2024 (E)	2025 (E)	(RMB, mn)	2022 (A)	2023 (E)	2024 (E)	2025 (E)
Revenue	4,829.9	6,296.0	7,347.6	8,378.9	PPE	195.2	214.8	229.4	240.9
YoY growth	52.1%	30.4%	16.7%	14.0%	Others	528.9	658.1	801.9	958.2
COGS	(3,789.3)	(5,017.6)	(5,861.3)	(6,668.1)	Non-current assets	724.1	872.9	1,031.2	1,199.0
Gross profit	1,040.6	1,278.5	1,486.4	1,710.8	Inventories	1,085.6	1,255.0	1,423.1	1,561.1
Other income	39.9	22.5	21.6	22.5	Trade receivables	1,697.7	2,022.9	2,231.5	2,485.3
Operating expenses	(583.1)	(737.4)	(841.5)	(945.9)	Cash & cash equivalents	336.9	220.7	334.3	343.4
Operating profit	497.4	563.5	666.5	787.4	Others	230.6	223.7	280.0	362.5
Finance expenses	(44.5)	(46.3)	(55.1)	(63.8)	Current assets	3,350.9	3,722.2	4,268.8	4,752.4
JV & Ass.	2.1	2.3	2.4	2.6	Total assets	4,074.9	4,595.1	5,300.0	5,951.4
Profit before tax	454.9	519.5	613.8	726.2	LT borrowings	-	-	-	-
Tax	(43.8)	(52.0)	(61.4)	(72.6)	Others	19.6	13.0	13.2	13.3
Net profit	411.1	467.6	552.4	653.6	Non-current liabilities	19.6	13.0	13.2	13.3
YoY growth	105.3%	13.7%	18.1%	18.3%	Trade payables	330.7	396.0	458.8	502.6
					ST borrowings	950.2	1,203.8	1,479.4	1,636.6
					Others	625.8	470.5	400.4	334.6
					Current liabilities	1,906.7	2,070.3	2,338.5	2,473.9
					Total liabilities	1,926.3	2,083.3	2,351.8	2,487.1
					Non-controlling interests	10.7	10.7	10.7	10.7
					Controlling interests	2,138.0	2,501.1	2,937.6	3,453.6
					Total equities	2,148.6	2,511.8	2,948.3	3,464.3

Cash Flow					Financial Ratio				
(RMB, mn)	2022 (E)	2023 (E)	2024 (E)	2025 (E)		2022 (A)	2023 (E)	2024 (E)	2025 (E)
Profit before tax	454.9	519.5	613.8	726.2	Gross margin	21.5%	20.3%	20.2%	20.4%
Finance expenses	44.5	46.3	55.1	63.8	Operating margin	10.3%	9.0%	9.1%	9.4%
Finance income	(4.3)	(2.5)	(1.6)	(2.5)	Net profit margin	8.5%	7.4%	7.5%	7.8%
D&A	45.7	51.2	56.6	60.0	Adj. EBITDA profit margin	11.6%	9.9%	10.0%	10.3%
Others	(580.5)	(250.4)	(267.3)	(257.3)	Return on Equity	21.1%	20.1%	20.2%	20.4%
Change in working capital	(210.4)	(362.7)	(209.8)	(281.3)	Return on Asset	11.9%	10.8%	11.2%	11.6%
CFO	(249.9)	1.4	246.7	308.9	Current ratio	175.7%	179.8%	182.5%	192.1%
					Quick ratio	118.8%	117.0%	117.0%	121.5%
CAPEX	(190.4)	(222.6)	(246.6)	(269.7)	Cash ratio	17.7%	10.7%	14.3%	13.9%
Others	(11.3)	-	-	-	Debt-to-Equity ratio	44.2%	47.9%	50.2%	47.2%
CFI	(201.7)	(222.6)	(246.6)	(269.7)	Net Debt-to-Equity ratio	28.5%	39.1%	38.8%	37.3%
					Inventory turnover days	77.0	85.1	83.4	81.7
Shares issuance	-	-	-	-	Receivable turnover days	94.2	95.1	95.1	93.8
Net borrowings	318.6	253.6	275.6	157.2	Payable turnover days	27.3	26.2	26.6	26.3
Interest paid	-	-	-	-					
Dividend paid	(60.2)	(125.5)	(140.3)	(165.7)					
Others	(41.5)	(23.1)	(21.9)	(21.6)					
CFF	216.9	105.0	113.4	(30.1)					
FCFE	(121.8)	32.4	275.7	196.4					
FCFF	(400.1)	(179.5)	49.8	96.6					

Source: Company data, West Bull Securities

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