



## Company Report: Xingfa Aluminium (00098 HK)

公司报告: 兴发铝业 (00098 HK)

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# Successful in Developing New Business, Maintain "Buy"

新业务拓展顺利, 维持“买入”评级

- **We maintain "Buy" investment rating for Xingfa Aluminium (the "Company") with a TP of HK\$11.73.** The TP corresponds to 4.9x/ 3.7x/ 2.9x 2023-2025 PER.
- **We expect sales of aluminum extrusion products for new energy vehicles of Xingfa Aluminium to record fast growth in 2023.** The penetration rate of China's new energy vehicles is accelerating from 2023 and new energy vehicles accounted 29.3% of total passenger vehicle output in the 1st quarter of 2023. We expect sales of aluminum extrusion products for new energy vehicles of the Company to benefit greatly from the fast development of the new energy vehicle industry and expect it to be the main source of growth for the Company in the next 3 years.
- **We believe the competitive advantages of Xingfa Aluminium have been underestimated by investors.** The Company has shown great competitive advantages in cost control and marketing, which are the main reasons why sales of aluminum extrusion products for construction still recorded growth under unfavorable conditions. We believe the growth prospects of the Company remain good.
- **Catalysts:** Fast sales growth of new energy vehicles; recovery of domestic property market.
- **Risks:** Development of aluminum extrusion products for vehicles may miss expectation; fierce competition from other aluminum extrusion producers; domestic property market may remain weak.
- **我们维持兴发铝业（“公司”）“买入”的投资评级及 11.73 港元的目标价。**我们的目标价相当于 4.9 倍/ 3.7 倍/ 2.9 倍 2023 年至 2025 年市盈率。
- **我们预计兴发铝业的新能源汽车铝挤压材销量在 2023 年将录得快速增长。**中国新能源汽车的渗透率在 2023 年开始加速, 2023 年一季度新能源汽车产量已经占乘用车总产量的 29.3%。我们预计公司新能源汽车用铝挤压材的销售将极大受益于新能源汽车行业的快速发展并成为公司未来三年主要的增长来源。
- **我们认为兴发铝业的竞争优势被投资者低估。**公司在成本控制和营销方面已显示出巨大的竞争优势, 这是公司建筑铝挤压材的销售在不利的环境下仍然录得增长的主要原因。我们相信公司的增长前景依旧良好。
- **催化剂:** 新能源汽车销量的快速增长; 国内房地产市场的复苏。
- **风险:** 车用铝挤压材的开发不及预期; 其它铝挤压生产企业的激烈竞争; 国内房地产市场持续疲软。

Rating:

**Buy**

Maintained

评级:

买入 (维持)

 6-18m TP 目标价:  
 Revised from 原目标价

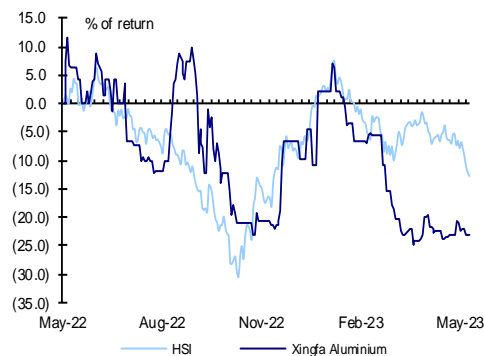
**HK\$11.73**  
 HK\$11.73

Share price 股价:

HK\$7.020

### 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 %	(0.6)	(24.6)	(5.8)
Rel. % to HS Index 相对恒指变动 %	(19.8)	(24.9)	13.1
Avg. Share price(HK\$) 平均股价 (港元)	7.2	8.1	8.5

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)	(%)	(%)
2021A	15,433	888	2.119	15.7	2.7	10.693	0.5	0.800	6.0	21.7
2022A	16,933	458	1.093	-48.4	5.9	11.113	0.6	0.900	13.7	10.0
2023F	18,381	915	2.178	97.4	3.0	11.275	0.6	1.000	13.8	19.5
2024F	20,014	1,213	2.886	32.5	2.2	12.432	0.5	1.200	15.3	24.3
2025F	21,997	1,526	3.632	25.8	1.8	14.090	0.5	1.200	18.4	27.3
Shares in issue (m) 总股数 (m)			418.9		Major shareholder 大股东			Guangxin Aluminum Holdings	21.6%	
Market cap. (HK\$ m) 市值 (HK\$ m)			2,995.1		Free float(%) 自由流通比率(%)				78.4%	
3 month average vol. 3 个月平均成交股数('000)			22.1		FY23 Net gearing (%) FY23 净负债/股东资金 (%)				19.1	
52 Weeks high/low (HK\$) 52 周高/低 (HK\$)			11.060 / 6.560		FY23 Est. NAV (HK\$) FY23 每股估值 (港元)				12.6	

Source: the Company, Guotai Junan International.

## Core Investment Points

**We expect sales of aluminum extrusion products for new energy vehicles to record fast growth in 2023.** The penetration rate of China's new energy vehicles is accelerating from 2023 and new energy vehicles accounted for 29.3% of total passenger vehicle output in the 1st quarter of 2023. We expect sales of aluminum extrusion products for new energy vehicles to benefit greatly from the fast development of the new energy vehicle industry and expect it to be the main source of growth for the Company in the next 3 years. In 2022, Xingfa Aluminium entered into the supply chain of new energy vehicles (NEV) for the first time and had acquired several NEV customers. Xingfa Aluminium develops aluminum extrusion products for new energy vehicles and develops product types in conjunction with vehicle enterprises. Sales of aluminum extrusion products of the Company will grow with sales of new energy vehicles. The Company will keep strengthening the research and development of industrial aluminum profiles in order to better grasp market opportunities and seize market share in various segments. At the same time, the Company also increased its production capacity, and Foshan Sanshui Precision Manufacturing Base was fully put into operation in 2022.

**We believe the competitive advantages of Xingfa Aluminium have been underestimated by investors.** The decline in net profit in 2022 was mainly attributable to impairment loss on trade and other receivables; the operations of the Company remained stable. Total sales of aluminum extrusion products and total revenue of the Company still recorded growth while the domestic property sector was confronted with great challenges. The gross margin was only down 1.5 pts in 2022, which fully reflected the competitive advantages of the Company. The Company had shown great competitive advantages in cost control and marketing, which are the main reasons why sales of aluminum extrusion products for construction still recorded growth under unfavorable conditions. We believe that growth prospects of the Company remain good. The decline in net profit in 2022 was temporary and the Company still holds great competitive advantages in the aluminum extrusion sector.

## Catalysts

1. **Fast sales growth of new energy vehicles.**
2. **Recovery of domestic property market.**

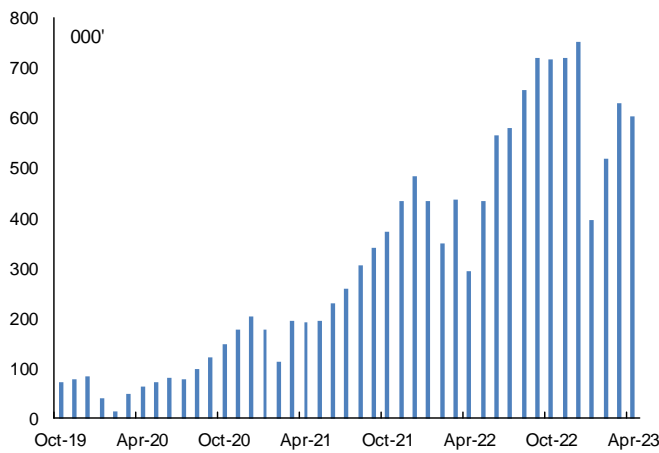
## Risk factors

1. **Development of aluminum extrusion products for vehicles may miss expectations.** Sales of industrial aluminum products will be the main growth driver for the Company in the next 3 years. If the development of aluminum extrusion products for new energy vehicles misses expectation, it will significantly impact net profit growth of the Company.
2. **Fierce competition from other aluminum extrusion producers.** The Company may be confronted with fierce competition in sales of aluminum extrusion products. Fierce competition may reduce profitability of the Company.
3. **Prolonged negative impact from the domestic property market.** Sales of construction aluminum products contributed more than 80% of total revenue. If the domestic property market remains weak, sales of construction aluminum products may be negatively impacted. Besides, impairment loss from trade receivables may increase if the domestic market deteriorates.

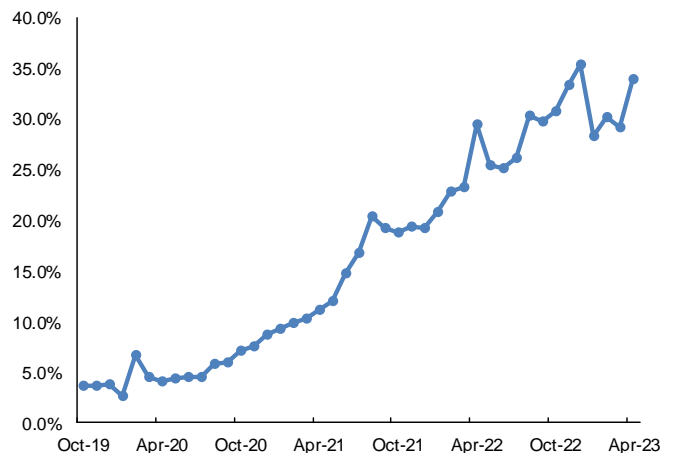
**Fast growth of the new energy vehicle industry will drive new demand for aluminum extrusion products**

**The penetration rate of China's new energy vehicles is accelerating in 2023.** In the 1st quarter of 2023, China's total output of new energy vehicles increased 28.5% yoy to 1.65 million and accounted for 25.3% of total vehicle output. Output of new energy passenger vehicles increased 26.2% yoy to 1.54 million in the 1st quarter of 2023 and accounted for 29.3% of total passenger vehicle output in the 1st quarter of 2023. China is the largest new energy vehicle market in the world and total sales of new energy vehicles increased 6.7% yoy to 7.04 million in 2022. Total sales of new energy vehicles recorded fast growth in the 1st quarter of 2023 and this growth speed is expected to be maintained. More and more new passenger vehicle models have been developed and are entering the market. Besides, newly developed vehicle models are better and meet consumer needs. Industry experts expect that global sales of new energy vehicles will maintain fast growth over the next 15 years. We expect that the fast development of the new energy vehicle industry will bring more demand for aluminum products.

**Figure-1: New energy passenger vehicle output of China**



**Figure-2: Penetration rate of new energy vehicles**



Source: China Association of Automobile Manufacturers, Guotai Junan International. Source: China Association of Automobile Manufacturers, Guotai Junan International.

**The development of the new energy vehicle industry will bring significant new demand for aluminum products.** The automobile industry is a major user of industrial aluminum products such as extrusion products, flat-rolled products and foundry products. Aluminum products used in the auto industry will benefit from two aspects: firstly, higher penetration rate of new energy vehicles in the auto industry and secondly, higher amounts of aluminum products in each new energy vehicle. Average usage of aluminum products in new energy vehicles is expected to increase steadily. According to an estimation from the International Aluminum Association, average use of aluminum products in electric vehicles was 188.2 kg in 2022 and the average use of aluminum products in hybrid vehicles was 215.5 kg, much more than that of traditional vehicles. With the development of technology and the auto industry, demand for aluminum products in new energy vehicles is expected to increase steadily. The International Aluminum Association estimates that the average usage of aluminum products in electric vehicles and hybrid vehicles will be 226.8 kg and 238.3 kg in 2025, respectively. The Chinese government has also released policies to stimulate the use of aluminum products in new vehicles. According to the policy released by the central government "Energy saving and new energy vehicle industry development plan 2.0", the average usage of aluminum products in new energy vehicles will reach 250 kg in 2025 and 350 kg in 2030. We expect total sales of aluminum products to the auto industry to maintain fast growth over the next 5-10 years.

**Table-1: Estimations of Aluminum Consumption per Vehicle in China**

	2020A	2021A	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F
<b>Passenger vehicle</b>	138.6	148.1	157.7	167.4	177.4	187.1	197.3	207.9	219.0	230.7	242.2
Fuel	136.4	145.2	153.9	162.5	171.2	179.8	188.5	197.2	205.8	214.5	222.8
EV	157.9	173.1	188.2	201.9	215.5	226.8	238.1	249.8	261.8	274.2	283.5
Hybrid	198.1	206.8	215.5	224.2	232.9	238.3	243.7	249	254.4	259.8	265.2
<b>Commercial vehicle</b>	122.6	133.9	145.1	156.2	165.9	180.1	194.8	209.1	223.6	238.3	253.2

Source: International Aluminum Association, CM Group.

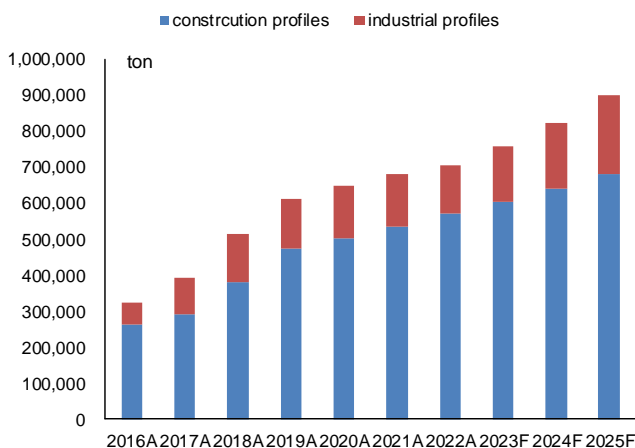
**Aluminum extrusion products and flat-rolled products will be in high demand due to the development of the new energy vehicle industry.** About 70% of aluminum products in new energy vehicles are aluminum extrusion products and aluminum flat-rolled products. We estimate that these products will reach about 3.5 million-4.2 million tons in 2025 and more than 7.0 million tons in 2030. Although the quantity is relatively small, it is very large compared to the current quantity of extrusion products and flat-rolled products for new energy vehicles. According to China's Nonferrous Fabrication Association, China produced about 0.33 million tons of aluminum extrusion products for vehicles and 0.30 million tons of aluminum flat-rolled products for vehicles in 2021. We expect the application of aluminum products to increase steadily over the next 5-10 years, which is also in line with the government's policy orientation. We believe that demand for aluminum extrusion products and flat-rolled products will be high due to the development of the new energy vehicle industry and will record significant growth over the next 5-10 years.

**We expect sales of aluminum extrusion products of the Company for new energy vehicles to record fast growth in 2023-2025.** In 2022, Xingfa Aluminium entered into the supply chain of new energy vehicles (NEV) for the first time, acquiring NEV customers. The Company will keep strengthening the research and development of industrial aluminum profiles in order to better grasp market opportunities and seize market share in various segments. At the same time, the Company also increased its production capacity, and Foshan Sanshui Precision Manufacturing Base was fully put into operation in 2022. We expect sales of aluminum extrusion products for new energy vehicles to benefit greatly from the fast development of the new energy vehicle industry and expect it to be the main source of growth for the Company in the next 3 years.

**Significant competitive advantages of Xingfa Aluminium.**

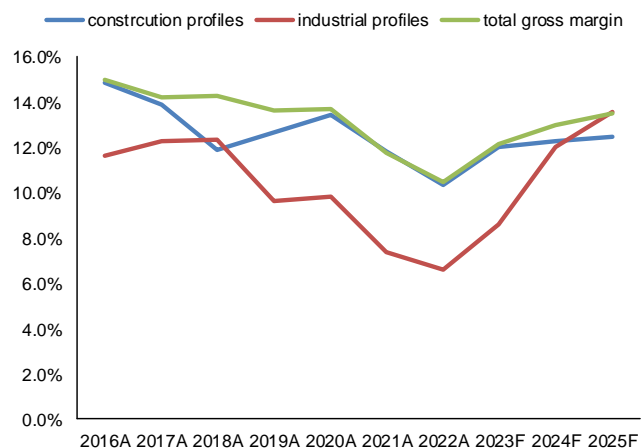
**Xingfa Aluminium is a leading company in the aluminum fabrication industry.** Xingfa Aluminium is one of the largest manufacturers in China's aluminum fabrication industry and a leading producer of construction aluminum products and industrial aluminum extrusion products in China. Xingfa Aluminium produces high-end construction of aluminum products and is the single largest company in the aluminum products construction industry. Xingfa Aluminium is also a leading producer of industrial aluminum extrusion products. In 2022, Xingfa Aluminium produced 0.57 million tons of construction aluminum products and 0.13 million tons of industrial aluminum extrusion products. According to a report published in a non-ferrous metals academic journal, China had more than 2,000 companies producing aluminum fabrication products in 2018 and the average output of each aluminum fabrication company was less than 20,000 tons. It is obvious that Xingfa Aluminium has great competitive advantages in production scale.

**Figure-3: Sales of aluminium products**



Source: the Company, Guotai Junan International.

**Figure-4: Gross margin of the Company**



Source: China Nonferrous Metals Fabricating Industry.

**Xingfa Aluminium exhibited great competitive advantages under unfavorable conditions in 2022.** Xingfa Aluminium is the largest producer of construction aluminum extrusion products and was awarded "Individual Champion Demonstration Enterprise in Manufacturing Industry" by the Chinese government. Total sales of construction aluminum products of Xingfa Aluminium maintained a 5-year CAGR of 14.4%, which increased from 0.29 million tons in 2017 to 0.57 million tons in 2022. Total sales of

industrial aluminum products of Xingfa Aluminium maintained a 5-year CAGR of 5.4%, which increased from 0.102 million tons in 2017 to 0.133 million tons in 2022. China's real estate investment declined 10% yoy in 2022, which was the first year of decline in over 10 years. As a result, upstream sectors related to the property sector were all confronted with great challenges in 2022. However, total sales of aluminum extrusion products and total revenue of the Company still recorded growth in 2022. Besides, the gross margin of the Company was only down 1.5 pts in 2022, which fully reflected the competitive advantages of the Company. The Company showed great competitive advantages in cost control and marketing, which are the main reasons why sales of aluminum extrusion products for construction still recorded growth under unfavorable conditions.

**Xingfa Aluminium has great advantages in the development and supply of aluminum extrusion products for new energy vehicles.** Xingfa Aluminium has strengths in research and has a complete production chain from alloy material research, module development and product development to production and processing. The development and supply of aluminum extrusion products for new energy vehicles mainly include product development and product supply. It starts from design cooperation with automobile manufacturers. Aluminum extrusion companies design specific parts to be installed in new vehicles. Aluminum extrusion products for new energy vehicles not only have to satisfy certain shape and strength requirements, but also electric signal penetration requirements as new energy vehicles have more intelligent software and more sensors. If the development of new vehicles is successful and is brought to the market, aluminum extrusion companies will supply aluminum extrusion products to meet demand. Xingfa Aluminium has a complete industrial chain for product development and has successfully designed several aluminum extrusion products for new energy vehicles. Currently the Company is developing aluminum extrusion products with automobile factories for new motorcycle types and is expected to enter into the supply stage in the coming years. Xingfa Aluminium has great advantages in the development and supply of aluminum extrusion products for new energy vehicles and we expect Xingfa Aluminium to be a leading supplier in the new energy vehicle industry in the future.

**Figure-5: Xingfa Aluminium's Product for Vehicles**



Source: the Company, Guotai Junan Internal.

**Figure-6: Xingfa Aluminium's Product for Vehicles**



Source: the Company, Guotai Junan Internal..

**Table-2:Peers Comparison**

Company	Stock Code	Currency	Last price	PE (fiscal year)				PB (fiscal year)				ROE(%)
				22A	23F	24F	25F	22A	23F	24F	25F	23F
International Listed companies												
Alcoa Corp	AA US	USD	33.69	21.9	12.2	14.1	8.7	2.0	1.7	1.5	1.3	18.0
Norsk Hydro Asa	NHY NO	NOK	69.64	12.6	6.4	10.8	9.5	1.8	1.4	1.5	1.4	25.6
Arconic Corp	ARNC US	USD	28.90	n.a.	20.5	10.4	7.6	1.6	1.5	1.2	1.0	2.7
Nippon Light Metal Holdings	5703 JP	JPY	1,352.00	28.5	5.7	7.6	7.0	0.5	0.5	0.5	0.4	8.5
Hindalco Industries Ltd	HNDL IN	INR	419.90	30.6	7.8	9.6	9.3	1.6	1.4	1.2	1.1	19.0
National Aluminium Co Ltd	NACL IN	INR	86.05	11.5	5.0	8.6	9.6	1.4	1.2	1.1	1.0	25.4
Simple Average				21.0	9.6	10.2	8.6	1.5	1.3	1.2	1.1	16.5
Weighted Average				21.3	8.7	10.6	9.0	1.6	1.4	1.3	1.2	19.4
PRC listed companies												
Henan Mingtai Al Industria-A	601677 CH	CNY	12.54	8.5	7.0	5.7	5.3	1.5	1.2	1.1	0.9	15.6
Shandong Nanshan Aluminum-A	600219 CH	CNY	3.01	12.5	10.9	9.9	8.7	1.0	1.0	0.9	0.8	8.4
Guangdong Haomei New Mater-A	002988 CH	CNY	16.07	24.4	36.9	11.6	7.5	1.5	1.5	1.3	1.2	4.0
Jiangsu Asia Pacific Light-A	002540 CH	CNY	5.42	15.0	15.4	12.0	10.2	1.4	1.3	1.2	1.1	8.6
Simple Average				15.1	17.5	9.8	8.0	1.3	1.2	1.1	1.0	9.2
Weighted Average				12.7	12.3	9.4	8.1	1.2	1.1	1.0	0.9	9.7
HK listed company												
Aluminum Corp Of China Ltd-H	02600 HK	HKD	3.56	10.4	9.7	10.2	8.1	0.9	0.9	0.8	0.7	9.3
China Hongqiao Group Ltd	01378 HK	HKD	5.76	3.6	4.5	4.2	3.5	0.7	0.7	0.6	0.6	15.3
China Zhongwang Holdings Ltd	01333 HK	HKD	n.a.	2.7	2.2	1.9	n.a.	0.3	0.2	0.2	n.a.	9.8
Xingfa Aluminium Holdings	00098 HK	HKD	7.02	2.8	n.a.	n.a.	n.a.	0.6	n.a.	n.a.	n.a.	n.a.
Simple Average				4.9	5.5	5.4	5.8	0.6	0.6	0.6	0.7	11.5
Weighted Average				7.8	7.8	8.0	6.4	0.8	0.8	0.8	0.7	11.5
Jiangxi Copper Co Ltd-H	00358 HK	HKD	11.88	5.9	6.8	9.0	6.9	0.5	0.5	0.5	0.5	7.3
Mmg Ltd	01208 HK	HKD	2.37	3.5	10.4	7.4	4.5	1.2	1.1	0.9	0.7	13.2
Cmcc Group Ltd-H	03993 HK	HKD	4.11	13.0	10.8	10.5	7.3	1.7	1.7	1.5	1.3	17.9
United Co Rusal Internationa	00486 HK	HKD	3.26	2.4	3.2	3.2	4.2	0.7	0.6	0.5	0.5	25.3
Simple Average				6.2	7.8	7.5	5.7	1.0	1.0	0.8	0.7	15.9
Weighted Average				8.4	8.3	8.4	6.4	1.2	1.1	1.0	0.9	16.5

Source: Bloomberg.





### 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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