

29 Aug, 2023

Intron | 01760.HK

Sacrificing short-term profit for long-term development

STOCK RATING

BUY

TARGET PRICE

HK\$ 6.13

Intron (01760HK) recorded a YoY 26.5% growth in the revenue to RMB 2,626mn for the 6 months ended Jun 2022. The contribution from the new energy and automated & connected vehicles segment ballooned to 47.7% and 7.7% respectively, offsetting the cloud server business segment which retreated YoY 71.1%. Besides, dragged by the R&D expenses and financial costs, the net margin plunged by 1.5p.p. to 5.8%.

Normalization of gross margin: Although the gross margin dropped by 1.0 p.p. to 20.6%, it is better than our estimate. It is a normalization process due to the "Cost+" pricing strategy and ~20% gross margin is a reasonable range.

Immaterial impacts brought by the price war: The solid revenue growth and outlook proved that the recent price war in the downstream brought immaterial impacts to Intron (01760.HK), alleviating the negative market sentiment. Instead of adopting the raw materials produced by global top-tier suppliers, the automotive manufacturers adopt local supplies as alternatives to lower the cost, but they still rely on Intron (01760.HK) to provide the solutions.

Sacrificing short-term profit for long-term development:

- **Surging financial costs:** The borrowings of the Group climbed to RMB 1,391.7mn, resulting in a 63.8% debt-to-equity ratio. According to our discussion with the Group, the borrowings are mostly short-term loans for trade finance, an increment of indebtedness was primarily a result of business expansion. However, given a majority of debts denominated in USD, hiking interest rates does increase financial expenses.
- **Heavier input in R&D:** The Group invested more heavily in 2023 1H for future development, including an establishment of testing and validation capability for ZCU and the development of the cockpit driving integrated product MAD3.5 etc. However, the R&D expenses boomed YoY 59.2% to RMB 232.8mn for the first 6 months ended Jun 2023, amounting to 8.9% of total revenue.

Slash TP to HKD 6.13/share: We raised our concerns about the inventories, R&D expenses, financial costs and labour costs in our last report, we maintain our view that the hiking costs incurred and tightening cash flow are unavoidable for expansion. We, thus, lower our estimates by 4.5% - 8.0% to reflect the cost increment in the short term, and we slash the TP to HKD 6.13/share, implying 13.7x/11.2x/9.6x fw P/E of 2023/2024/2025, maintaining "BUY".

COMPANY UPDATE

H F NGO, Brian, CFA

SENIOR ANALYST

briango@westbullsec.com.hk

+852 3896 2965

2701 – 2703, 27/F, Infinitus Plaza, 199 Des Voeux Rd

Central, Sheung Wan, HK

Intron (01760.HK)

Stock Rating BUY (BUY)

Target Price HK\$ 6.13 (HK\$ 7.76)

Current Price HK\$ 3.13

52-Week Range HK\$ 3.04 – 6.27

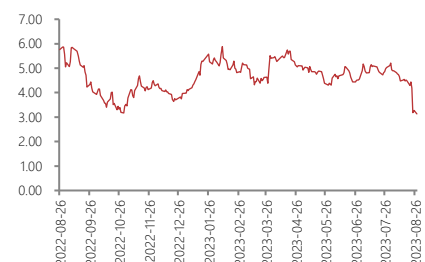
Market cap. (HKD, bn) 3.4

RMB, mn	22(A)	23(E)	24(E)	25(E)
Revenue	4,829.9	6,075.5	7,226.7	8,254.9
Gross Profit	1,040.6	1,247.9	1,471.3	1,665.7
Gross Margin	21.5%	20.5%	20.4%	20.2%
Net Profit	411.1	430.0	527.5	615.4
EPS	0.382	0.400	0.489	0.570
P/S	0.9	0.5	0.4	0.4
P/E	14.0	7.0	5.7	4.9
ROE	21.1%	18.6%	19.7%	19.7%

Performance 1 mth 3 mth 6 mth 1 year

Absolute -37.8% -28.5% -35.3% -45.6%

Relative to HSI -28.8% -25.2% -26.9% -35.5%



Peers comparison

		Mkt. Cap.	P/E	Fw. P/E	P/B	P/S	Revenue	GM	ROE
		(HKD, mn)	(x)	(x)	(x)	(x)	(HKD, mn)	(%)	(%)
00175.HK	Geely Auto	96,044.1	17.4	-	1.2	0.5	172,295.4	14.1	7.4
01958.HK	BAIC	15,068.8	3.3	4.0	0.3	0.1	221,781.5	22.2	7.8
02238.HK	GAC Group	94,067.2	7.5	5.1	0.3	0.3	128,095.5	4.1	5.0
02333.HK	Greatwall Motor	193,699.5	11.7	-	1.2	0.6	159,923.6	19.4	10.6
	<i>Average – Traditional</i>								
	<i>manufacturers</i>	99,719.9	10.0	4.5	0.7	0.4	170,524.0	14.9	7.7
01211.HK	BYD	706,646.6	30.5	24.7	5.3	1.3	493,791.5	17.0	18.9
02015.HK	Li Auto	328,137.5	-	35.5	-	-	52,733.6	19.4	4.0
09863.HK	Leapmotor	42,965.7	-	-	4.8	3.0	14,421.1	(15.4)	(66.0)
09866.HK	Nio	145,989.7	-	-	-	-	57,370.1	10.4	(65.5)
09868.HK	XPeng	125,015.0	-	-	2.8	5.5	31,271.1	11.5	(27.2)
	<i>Average – New energy car</i>								
	<i>manufacturers</i>	269,750.9	30.5	30.1	4.3	3.2	129,917.5	8.6	(27.2)
IFNNY.US	Infineon	356,440.0	-	13.2	-	-	120,527.5	43.1	22.9
MCHP.US	Microchip	338,951.2	18.1	13.5	6.3	5.0	66,148.8	67.5	37.4
NXPI.US	NXP	396,826.4	15.2	13.7	6.2	3.9	103,403.6	56.9	36.6
ON.US	On								
	Semiconductor	312,550.9	17.5	17.0	5.7	4.8	65,199.4	49.0	31.6
STM.US	STMicroelectronics	330,682.1	-	11.2	-	-	126,292.5	47.3	34.4
	<i>Average – Semiconductor</i>								
	<i>suppliers</i>	347,090.1	16.9	13.8	6.1	4.5	90,261.1	55.2	35.0
01760.HK	Intron	3,404.9	7.6	-	1.5	0.6	5,624.2	21.5	20.8

Source: Bloomberg, West Bull Securities

Risk factors

- Business expansion imposes pressure on cash flow, and it may not be reversible in the short-term
- Hiking interest rate environment doesn't favour the re-financing activities
- Input for R&D remains higher than the long-term target for Intron (01760.HK) to maintain its leading position
- Slower-than-expected penetration for L3

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	6,075.5	7,226.7	8,254.9	PPE	195.2	209.2	219.6	228.1
<i>YoY growth</i>	52.1%	25.8%	18.9%	14.2%	Others	528.9	715.8	739.1	750.4
COGS	(3,789.3)	(4,827.5)	(5,755.5)	(6,589.2)	Non-current assets	724.1	925.0	958.7	978.5
Gross profit	1,040.6	1,247.9	1,471.3	1,665.7	Inventories	1,085.6	1,532.2	1,599.6	1,717.5
Other income	39.9	22.5	24.3	25.9	Trade receivables	1,697.7	1,752.3	1,962.7	2,206.4
Operating expenses	(583.1)	(738.9)	(835.9)	(927.4)	Cash & cash equivalents	336.9	574.8	792.3	731.8
Operating profit	497.4	531.6	659.6	764.2	Others	230.6	439.4	472.1	530.2
Finance expenses	(44.5)	(81.9)	(76.0)	(83.0)	Current assets	3,350.9	4,298.7	4,826.9	5,186.0
JV & Ass.	2.1	2.3	2.4	2.6	Total assets	4,074.9	5,223.7	5,785.6	6,164.5
Profit before tax	454.9	451.9	586.1	683.8	LT borrowings	-	140.3	151.9	154.6
Tax	(43.8)	(22.0)	(58.6)	(68.4)	Others	19.6	19.7	19.7	19.6
Net profit	411.1	430.0	527.5	615.4	Non-current liabilities	19.6	160.0	171.6	174.2
<i>YoY growth</i>	105.3%	4.6%	22.7%	16.7%	Trade payables	330.7	308.3	350.7	387.4
					ST borrowings	950.2	1,263.2	1,519.0	1,545.6
					Others	625.8	1,020.1	853.7	85.8
					Current liabilities	1,906.7	2,592.0	2,723.4	2,619.1
					Total liabilities	1,926.3	2,752.1	2,894.9	2,793.3
					Non-controlling interests	10.7	6.0	1.5	(2.8)
					Controlling interests	2,138.0	2,465.6	2,889.2	3,374.0
					Total equities	2,148.6	2,471.6	2,890.6	3,371.2

Cash Flow					Financial Ratio				
(RMB, mn)	2022 (€)	2023 (€)	2024 (€)	2025 (€)		2022 (A)	2023 (€)	2024 (€)	2025 (€)
Profit before tax	454.9	451.9	586.1	683.8	Gross margin	21.5%	20.5%	20.4%	20.2%
Finance expenses	44.5	81.9	76.0	83.0	Operating margin	10.3%	8.7%	9.1%	9.3%
Finance income	(4.3)	(2.5)	(4.3)	(5.9)	Net profit margin	8.5%	7.1%	7.3%	7.5%
D&A	45.7	49.4	54.2	57.0	Adj. EBITDA profit margin	11.6%	9.7%	10.0%	10.1%
Others	(580.5)	(510.7)	(158.5)	(221.4)	Return on Equity	21.1%	18.6%	19.7%	19.7%
Change in working capital	(210.4)	206.1	(298.9)	(374.5)	Return on Asset	11.9%	9.2%	9.6%	10.3%
CFO	(249.9)	276.1	254.6	222.0	Current ratio	175.7%	165.8%	177.2%	198.0%
					Quick ratio	118.8%	106.7%	116.3%	127.9%
CAPEX	(190.4)	(216.2)	(140.6)	(128.0)	Cash ratio	17.7%	22.2%	29.1%	27.9%
Others	(11.3)	(23.1)	-	-	Debt-to-Equity ratio	44.2%	56.8%	52.5%	45.8%
CFI	(201.7)	(239.3)	(140.6)	(128.0)	Net Debt-to-Equity ratio	28.5%	27.9%	25.1%	24.1%
					Inventory turnover days	77.0	99.0	99.3	91.9
Shares issuance	-	-	-	-	Receivable turnover days	94.2	94.9	90.4	89.2
Net borrowings	318.6	452.5	256.6	26.9	Payable turnover days	27.3	23.9	20.9	20.4
Interest paid	-	-	-	-					
Dividend paid	(60.2)	(127.0)	(130.4)	(159.6)					
Others	(41.5)	(125.3)	(21.9)	(21.5)					
CFF	216.9	201.0	103.6	(154.5)					
FCFE	(121.8)	513.2	369.8	120.6					
FCFF	(400.1)	137.8	182.4	168.7					

Source: Company data, West Bull Securities

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