

25 Mar, 2024

Intron | 01760.HK

Cautious outlook in operation

STOCK RATING

BUY

TARGET PRICE

HK\$ 2.85

Intron (01760.HK) reported a YoY 20.1% increase in revenue to RMB 5,802.3mn in FY 2023, and the GM plunged by 2.9p.p. to 18.7%, lower than our estimates. An abnormally low GM and booming R&D expense brought the Group a YoY 23.0% retreat in the bottom-line.

Deceleration of the top-line growth: Breaking down the revenue by segment, Intron (01760.HK) recorded YoY 34.9% (2022: 34.9%) / 7.7% (50.0%) / 32.8% (33.5%) / 3.3% (39.9%) / 58.8% (151.3%) / -52.0% (-23.5%) growth in the NEV / Body Control / Safety / Powertrain / Automated & Connected Vehicles / Cloud Server segments respectively, missing our estimates. NEV Solutions remained the primary contributor and Automated & Connected Vehicles Solutions remained the major driver. However, manufacturers tend to adopt lower-cost solutions or lower-specification solutions due to the keen competition, resulting in a slower penetration for ADAS and bringing slower growth to the Group.

Forced changes in the pricing strategy: Intron (01760.HK) recorded a 17.1% GM in 2023 2H, implying a change in the "Cost+ ~20%" pricing strategy which was unaffected by the market fluctuations in the past years. An adjustment to "tide over the difficulties with upstream and downstream partners" implies a huge pressure brought by the price war in downstream, and we cannot see any amelioration in 2024 Q1. Although more complicated solutions like Power Brick Solution with better margins may help stabilize the margin in 2H, the profit margin may remain at a lower level due to the lower-cost solutions or lower-specification solutions adopted by the manufacturers.

Rocketing financing expenses: Tightening working capital was primarily driven by i) the normalization of inventory level from the chips shortage era, ii) the prepayment for fixed assets in Nantong, leading to a RMB 1,651.8mn borrowings and a 48.1% net debt-to-equity ratio. We expect that the gearing ratio will peak soon due to lower CAPEX incurred in Nantong and improving cash conversion cycle from the chips shortage era, the profit margin will be eroded by the financial costs to a lesser extent.

Cautious outlook in operation: We cut our estimates by 51% - 58% to reflect the serious difficulties faced by the Group, profit margin may be squeezed by lower GM, higher-than-average R&D expenses and finance expenses. Unfortunately, we cannot see a turnaround due to the keen price war. We, thus, slash the TP to HKD 2.85/share, 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\$ 2.85 (HK\$ 6.13)

Current Price HK\$ 1.94

52-Week Range HK\$ 1.79 – 5.96

Market cap. (HKD, bn) 2.1

RMB, mn	23(A)	24(E)	25(E)	26(E)
Revenue	5,802.3	6,840.5	7,524.0	8,174.4
Gross Profit	1,083.6	1,247.8	1,415.3	1,585.5
Gross Margin	18.7%	18.2%	18.8%	19.4%
Net Profit	312.5	219.4	301.3	398.7
EPS	0.292	0.206	0.281	0.370

Performance	1 mth	3 mth	6 mth	1 year
Absolute	-19.2%	-5.8%	-42.1%	-56.7%
Relative to HSI	-17.7%	-6.8%	-33.5%	-41.0%



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	92,583.1	16.3	10.9	1.1	0.5	198,117.6	15.3	7.0
00489.HK	Dongfeng	28,649.1	4.6	-	0.2	0.3	107,900.1	9.5	4.0
01114.HK	Brilliance Auto	28,556.2	2.6	-	0.5	24.4	1,316.7	20.8	20.5
01211.HK	BYD	660,517.6	20.1	14.5	4.4	1.0	493,791.5	17.0	24.7
01958.HK	BAIC	21,721.6	6.5	5.1	0.4	0.1	218,841.7	20.2	5.4
02015.HK	Li Auto	255,491.2	-	15.6	-	-	136,923.2	22.2	22.3
02238.HK	GAC Group	81,170.4	7.0	7.3	0.3	0.2	128,095.5	4.1	4.2
02333.HK	Greatwall Motor	178,045.8	9.9	-	1.1	0.4	191,712.6	19.4	7.4
09863.HK	Leapmotor	27,380.1	-	-	4.1	1.9	14,421.1	(15.4)	(88.0)
09866.HK	Nio	80,831.6	-	-	-	-	61,488.1	5.5	(85.6)
09868.HK	XPeng	65,190.7	-	-	2.0	1.9	33,913.8	11.5	(33.4)
	<i>Average - Manufacturers</i>	<i>138,194.3</i>	<i>9.6</i>	<i>10.7</i>	<i>1.6</i>	<i>3.4</i>	<i>144,229.3</i>	<i>11.8</i>	<i>(10.1)</i>
01274.HK	iMotion	17,631.1	-	-	-	-	1,543.9	8.3	-
002906.CH	Foryou	14,817.3	30.8	26.3	2.4	2.0	6,565.0	22.1	8.3
002920.CH	Desay	66,988.8	42.5	34.9	8.5	3.2	17,388.4	23.0	22.1
688326.CH	Hirain Tech.	9,268.8	-	-	1.7	2.0	4,683.3	29.0	(1.0)
MBLY.US	Mobileye	199,063.2	-	80.5	0.2	12.2	16,276.2	50.4	(0.2)
	<i>Average – Solution Providers</i>	<i>61,553.9</i>	<i>36.6</i>	<i>47.2</i>	<i>3.2</i>	<i>4.9</i>	<i>9,291.4</i>	<i>26.6</i>	<i>7.3</i>
IFNNY.US	Infineon	346,645.5	-	14.8	-	-	136,386.3	45.5	20.2
MCHP.US	Microchip	372,085.2	20.4	33.2	-	-	66,148.8	67.5	35.2
NXPI.US	NXP	490,063.0	18.8	18.2	7.3	4.8	103,936.0	56.9	34.8
ON.US	On Semi.	249,587.6	14.6	17.4	4.1	3.9	64,611.6	47.1	31.3
STM.US	STMicroelectronics	308,356.5	-	14.2	-	-	135,329.8	47.9	28.6
	<i>Average – Semi. suppliers</i>	<i>353,347.6</i>	<i>17.9</i>	<i>19.6</i>	<i>6.0</i>	<i>4.8</i>	<i>101,282.5</i>	<i>53.0</i>	<i>30.0</i>
01760.HK	Intron	2,110.4	6.1	3.5	0.8	0.3	6,414.7	18.7	14.1

Source: Bloomberg, West Bull Securities

Risk factors

- Lower pricing and hence profit margin due to the keen competition in the downstream
- The price war in the downstream results in a slower penetration for ADAS
- Longer cash conversion cycle leads to tightening working capital
- Heavy interest burden caused by high interest rate
- R&D expenses remain at a high level

Financial Statement

PnL					Balance Sheet				
(RMB, mn)	2023 (A)	2024 (E)	2025 (E)	2026 (E)	(RMB, mn)	2023 (A)	2024 (E)	2025 (E)	2026 (E)
Revenue	5,802.3	6,840.5	7,524.0	8,174.4	PPE	249.9	260.6	265.0	265.1
<i>YoY growth</i>	<i>20.1%</i>	<i>17.9%</i>	<i>10.0%</i>	<i>8.6%</i>	Others	722.5	695.3	672.9	642.5
COGS	(4,718.7)	(5,592.7)	(6,108.7)	(6,588.9)	Non-current assets	972.4	955.9	938.0	907.7
Gross profit	1,083.6	1,247.8	1,415.3	1,585.5	Inventories	1,554.3	1,783.4	1,759.9	1,809.5
Other income	82.5	21.7	15.9	13.0	Trade receivables	1,848.2	2,131.5	2,129.7	2,097.0
Operating expenses	(763.7)	(930.7)	(1,003.3)	(1,085.4)	Cash & cash equivalents	517.0	348.2	350.2	394.9
Operating profit	402.5	338.9	427.9	513.1	Others	651.5	650.7	595.9	534.2
Finance expenses	(100.0)	(94.3)	(92.8)	(70.3)	Current assets	4,571.0	4,913.8	4,835.7	4,835.6
JV & Ass.	(0.2)	(0.8)	(0.3)	0.2	Total assets	5,543.4	5,869.7	5,773.6	5,743.3
Profit before tax	302.2	243.8	334.8	443.0	LT borrowings	267.7	274.7	243.9	207.1
Tax	10.3	(24.4)	(33.5)	(44.3)	Others	18.2	22.5	25.6	23.6
Net profit	312.5	219.4	301.3	398.7	Non-current liabilities	285.9	297.2	269.5	230.7
<i>YoY growth</i>	<i>-24.0%</i>	<i>-29.8%</i>	<i>37.3%</i>	<i>32.3%</i>	Trade payables	595.9	597.6	570.2	535.3
					ST borrowings	1,384.0	1,599.6	1,345.5	1,086.3
					Others	918.8	865.0	811.0	769.6
					Current liabilities	2,898.8	3,062.2	2,726.7	2,391.2
					Total liabilities	3,184.7	3,359.4	2,996.2	2,621.9
					Non-controlling interests	5.9	1.4	(2.9)	(7.2)
					Controlling interests	2,352.8	2,509.0	2,780.3	3,128.6
					Total equities	2,358.7	2,510.3	2,777.4	3,121.4

Cash Flow					Financial Ratio				
(RMB, mn)	2023 (E)	2024 (E)	2025 (E)	2026 (E)		2023 (A)	2024 (E)	2025 (E)	2026 (E)
Profit before tax	302.2	243.8	334.8	443.0	Gross margin	18.7%	18.2%	18.8%	19.4%
Finance expenses	100.0	94.3	92.8	70.3	Operating margin	6.9%	5.0%	5.7%	6.3%
Finance income	(7.7)	(11.7)	(7.9)	(8.0)	Net profit margin	5.4%	3.2%	4.0%	4.9%
D&A	62.4	67.0	68.6	68.6	Adj. EBITDA profit margin	8.2%	5.9%	6.5%	7.0%
Others	(545.1)	(283.8)	(34.6)	(95.1)	Return on Equity	13.9%	9.0%	11.4%	13.5%
Change in working capital	57.6	(275.4)	(17.6)	23.7	Return on Asset	6.5%	3.8%	5.2%	6.9%
CFO	(30.5)	(165.8)	436.1	502.5	Current ratio	157.7%	160.5%	177.3%	202.2%
					Quick ratio	104.1%	100.1%	109.9%	123.1%
CAPEX	(173.3)	(106.9)	(88.9)	(82.2)	Cash ratio	17.8%	11.4%	12.8%	16.5%
Others	(56.6)	-	-	-	Debt-to-Equity ratio	70.0%	63.7%	48.4%	34.8%
CFI	(229.9)	(106.9)	(88.9)	(82.2)	Net Debt-to-Equity ratio	48.1%	49.8%	35.8%	22.1%
					Inventory turnover days	104.0	108.9	105.9	98.9
Shares issuance	-	-	-	-	Receivable turnover days	102.3	101.2	99.1	90.8
Net borrowings	701.5	215.5	(254.1)	(259.2)	Payable turnover days	35.8	38.9	34.9	30.6
Interest paid	-	-	-	-					
Dividend paid	(127.0)	(97.0)	(67.2)	(91.7)					
Others	(134.1)	(14.6)	(23.9)	(24.7)					
CFF	440.4	103.9	(345.2)	(375.6)					
FCFE	497.7	(57.2)	93.0	161.2					
FCFF	(100.4)	(187.9)	430.6	483.6					

Source: Company data, West Bull Securities

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