EVA Holdings (838 HK)

In a transition from tier-2 to tier-1 supplier

Maintain BUY. We are of the view that EVA Holdings (EVA)'s transformation from a tier-2 parts supplier to a tier-1 player lays a foundation for the growth in the next few years, based on our recent meetings with EVA's management. It also appears to us that EVA's office automation (OA) business could sustain its solid gross margin in FY24E given its growth in Weihai and recovery in Vietnam.

- **On track to a tier-1 parts supplier with new hot forming business.** We agree with EVA's management that the revenue growth potential for a tier-2 parts supplier could be limited. Its Mexico business could be an example. Although the plant achieved breakeven in the operating level in 2H23 (there are still internal transactions and tax to make the situation complicated) as EVA raised prices for Faurecia, Faurecia still accounted for more than 60% of FY23 revenue in Mexico. Such product mix could limit EVA's margin lift in Mexico, in our view. EVA's expertise in moulding and its track record as a tier-1 supplier for Great Wall Motor (2333 HK/601633 CH, BUY) give us more confidence in its transformation. EVA has secured orders from Changan (000625 CH, NR), including Avatr and Deepal. The company is also in talks with quite a few automakers to improve its Mexico product mix and better utilize its capacity in China. The orders from Changan also include steel hot forming amid the lightweighting megatrend and safety concerns, which could also widen EVA's margins slightly and increase dollar content per vehicle.
- **We project 15% CAGR for auto parts' revenue growth in FY24-25E.** Management targets auto parts' revenue to be HK$2.2bn in FY24E, which, in our view, is achievable. The growth should mainly come from its Wuhan and Mexico plants. Revenue from Great Wall (mainly from EVA's Wuhan and Chongqing plants) rose by 35% YoY in FY23 to about HK$350mn amid solid sales growth for Tank and P-series. We expect Tank's sales volume growth to continue in FY24E, which could benefit EVA. We project revenue in EVA's Mexico plant to rise by only HK$100mn, much slower than previously planned, as the company has given up low-margin products from Faurecia, especially as it aims to transform itself into a tier-1 player.

  Changan could be the revenue driver for EVA in FY25E and we project EVA's auto parts' revenue to rise by 15% YoY to HK$2.5bn in FY25E. Stellantis (STLA US, NR) could also start to contribute revenue to its Mexico plant in FY25E.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (HK$ mn)	6,268	6,183	6,571	7,030	7,423
YoY growth (%)	22.7	(1.4)	6.3	7.0	5.6
Net profit (HK$ mn)	206.0	237.1	285.2	314.2	341.3
YoY growth (%)	32.8	15.1	20.3	10.2	8.6
EPS (Reported) (HK$)	0.12	0.14	0.16	0.18	0.20
P/E (x)	6.6	5.7	4.8	4.3	4.0
P/B (x)	0.5	0.5	0.4	0.4	0.4
Yield (%)	4.5	5.2	6.3	6.9	8.0
ROE (%)	7.3	8.1	9.2	9.4	9.6

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	**HK$1.50**
(Previous TP	HK$1.50)
Up/Downside	**92.3%**
Current Price	**HK$0.78**

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Stock Data

Mkt Cap (HK$ mn)	1,357.9
Avg 3 mths t/o (HK$ mn)	0.9
52w High/Low (HK$)	0.88/0.65
Total Issued Shares (mn)	1740.9

Source: FactSet

Shareholding Structure

Zhang Hwo Jie's Family	45.5%
Others	54.5%

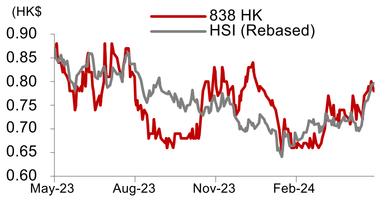
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	6.8%	-3.8%
3-mth	16.4%	1.1%
6-mth	-6.0%	-9.1%

Source: FactSet

12-mth Price Performance



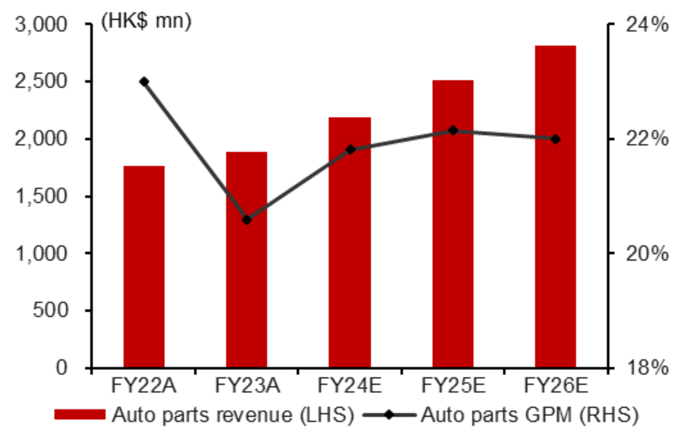
Source: FactSet

Related Reports:
"EVA Holdings (838 HK) – Better 2H23 and FY24 as Mexico to turn profitable" – 11 Sep 2023

- **GPM lift in 2H23 likely to continue in FY24E.** Auto parts' GPM in 2H23 widened by 2ppts HoH to about 21.5%, as margins for Faurecia and Great Wall improved. Both factors will continue in FY24E and therefore, we project auto parts' GPM in FY24E to be 21.8%, as production capacity is to rise and capex is to decline. We expect capex of auto parts business to be no more than HK$150mn in FY24E, lower than HK$173mn in FY23. We also expect auto parts' GPM to remain at such level in FY25E, as more revenue may come from automakers directly.
- **OA profit to remain stable in FY24-25E.** EVA's OA revenue fell HK$207mn YoY in FY23, largely due to the drop of HK$180mn in its Vietnam plant. High inventory and the internal issues at Fujifilm were the main reasons, which should fade away in FY24E. We expect revenue in the Vietnam plant in FY24E to rise HK$100mn to about HK$950mn in FY24E. Revenue in its Weihai plant almost doubled YoY to HK$10mn in FY23E. The Phase II of Weihai plant is to start production in Jun 2024. Management expects revenue in the Weihai plant to rise HK$200mn YoY in FY24E. On the other hand, we project OA revenue to decline in EVA's Suzhou and Shenzhen plants. We project the overall OA revenue to only rise 2% YoY (about HK$100mn) to HK$4.4bn in FY24E. We have become conservative as FY23 OA revenue missed our prior expectation.

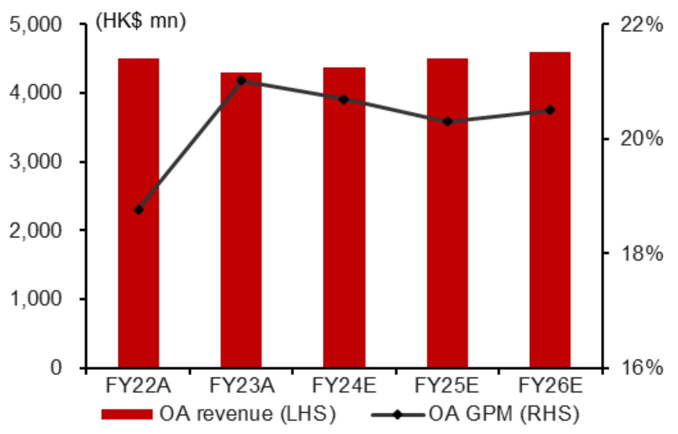
  EVA's OA GPM widened by about 2ppts YoY in FY23 despite revenue decline, thanks to higher self-made parts ratio in its assembly business, as some Japanese OA parts suppliers exited China. We estimate OA's net profit to be about HK$210mn in FY23, or 90% of EVA's total net profit. We project OA's net profit in FY24-25E to be HK$210-220mn.
- **1H24 earnings outlook.** We project EVA's net profit in 1H24E to rise 15% YoY to HK$141mn, assuming 5% YoY growth in revenue and a gross margin of 20.7%. We estimate FY24E net profit to rise 20% YoY to HK$285mn, or 4% lower than our prior forecast. We also project FY25-26E net profit to rise 10% YoY and 9% YoY, respectively.
- **Valuation/Key risks.** We maintain our BUY rating and target price of HK$1.50, based on the sum-of-the-parts (SOTP) valuation (details in Figure 6). We value HK$0.50 (previously HK$0.55) per share for its auto components business, based on 13x (previously 11x) our revised FY24E P/E, as we believe the transformation to a tier-1 player could lift its sales growth potential significantly. We value HK$1.00 (previously HK$0.95) per share for its OA business, based on 8x (unchanged) our FY24E P/E. Key risks to our rating and target price include lower orders intakes from automakers, lower GPM and higher taxes from Vietnam than we expect.

Figure 1: Auto parts revenue and GPM



Source: Company data, CMBIGM estimates

Figure 2: OA revenue and GPM



Source: Company data, CMBIGM estimates

Figure 3: 1H24E earnings forecast

RMB mn	2H21	1H22	2H22	1H23	2H23	1H24E	YoY	HoH
Revenue	2,722	2,940	3,328	2,862	3,321	3,000	4.8%	-9.7%
Gross profit	526	565	686	545	747	621	13.9%	-16.8%
Selling expenses	(182)	(124)	(245)	(125)	(201)	(144)	15.0%	-28.4%
Admin expenses	(219)	(333)	(282)	(289)	(372)	(300)	3.8%	-19.3%
Operating profit	112	121	152	189	202	205	8.5%	1.6%
Net profit	87	103	103	123	114	141	15.1%	23.3%
Gross margin	19.3%	19.2%	20.6%	19.0%	22.5%	20.7%	1.7 ppt	-1.8 ppt
Operating margin	4.1%	4.1%	4.6%	6.6%	6.1%	6.8%	0.2 ppt	0.8 ppt
Net margin	3.2%	3.5%	3.1%	4.3%	3.4%	4.7%	0.4 ppt	1.3 ppt

Source: Company data, CMBIGM estimates

Figure 4: Earnings revision

	New			Old			Diff (%)		
RMB mn	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	6,571	7,030	7,423	7,637	8,355	N/A	-14.0%	-15.9%	N/A
Gross profit	1,385	1,474	1,564	1,545	1,692	N/A	-10.4%	-12.9%	N/A
Operating profit	421	456	498	415	472	N/A	1.5%	-3.4%	N/A
Net profit	285	314	341	296	352	N/A	-3.6%	-10.7%	N/A
Gross margin	21.1%	21.0%	21.1%	20.2%	20.3%	N/A	0.8 ppt	0.7 ppt	N/A
Operating margin	6.4%	6.5%	6.7%	5.4%	5.6%	N/A	1.0 ppt	0.8 ppt	N/A
Net margin	4.3%	4.5%	4.6%	3.9%	4.2%	N/A	0.5 ppt	0.3 ppt	N/A

Source: CMBIGM estimates

Figure 5: CMBI estimates vs consensus

	CMBIGM			Consensus			Diff (%)		
RMB mn	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	6,571	7,030	7,423	7,637	8,355	N/A	-14.0%	-15.9%	N/A
Gross profit	1,385	1,474	1,564	1,543	1,688	N/A	-10.2%	-12.7%	N/A
Operating profit	421	456	498	415	472	N/A	1.5%	-3.4%	N/A
Net profit	285	314	341	296	352	N/A	-3.6%	-10.7%	N/A
Gross margin	21.1%	21.0%	21.1%	20.2%	20.2%	N/A	0.9 ppt	0.8 ppt	N/A
Operating margin	6.4%	6.5%	6.7%	5.4%	5.6%	N/A	1.0 ppt	0.8 ppt	N/A
Net margin	4.3%	4.5%	4.6%	3.9%	4.2%	N/A	0.5 ppt	0.3 ppt	N/A

Source: Bloomberg, CMBIGM estimates

Figure 6: SOTP valuation

Segment	FY24E Net profit (HK$ mn)	Target P/E multiple	Target market cap (HK$ mn)	Target price (HK$)
Auto components	66	13x	870	0.50
Office automation	220	8x	1,741	1.00
SOTP			**2,611**	**1.50**

Source: CMBIGM estimates

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (HK$ mn)						
Revenue	**5,109**	**6,268**	**6,183**	**6,571**	**7,030**	**7,423**
Cost of goods sold	(4,096)	(5,017)	(4,891)	(5,186)	(5,557)	(5,859)
Gross profit	**1,013**	**1,251**	**1,292**	**1,385**	**1,474**	**1,564**
Operating expenses	**(789)**	**(962)**	**(938)**	**(959)**	**(1,025)**	**(1,085)**
Selling expense	(315)	(369)	(326)	(353)	(378)	(404)
Admin expense	(506)	(615)	(661)	(658)	(701)	(739)
Others	32	22	49	52	55	58
Operating profit	**224**	**289**	**354**	**425**	**449**	**479**
Gain/loss on financial assets at FVTPL	(24)	(8)	0	0	0	0
Other gains/(losses)	(5)	(8)	37	(4)	7	19
Share of (losses)/profits of associates/JV	0	(0)	(0)	(1)	(1)	(1)
EBITDA	**483**	**556**	**709**	**758**	**807**	**869**
Depreciation	241	229	243	264	289	308
Depreciation of ROU assets	33	42	31	30	32	32
Other amortisation	2	2	2	2	2	2
EBIT	**208**	**283**	**433**	**462**	**485**	**526**
Interest income	13	10	42	41	30	29
Interest expense	(28)	(53)	(129)	(105)	(82)	(71)
Pre-tax profit	**180**	**231**	**304**	**357**	**403**	**455**
Income tax	(25)	(25)	(67)	(71)	(89)	(114)
After tax profit	**155**	**206**	**237**	**285**	**314**	**341**
Minority interest	0	0	0	0	0	0
Net profit	**155**	**206**	**237**	**285**	**314**	**341**
Gross dividends	47	61	71	86	94	109

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (HK$ mn)						
Current assets	**3,642**	**4,297**	**4,319**	**4,267**	**4,555**	**4,684**
Cash & equivalents	1,318	1,722	1,611	1,476	1,599	1,611
Account receivables	1,382	1,681	1,820	1,890	2,003	2,074
Inventories	688	639	641	654	685	722
Prepayment	150	146	143	138	148	156
ST bank deposits	103	109	104	110	120	120
Non-current assets	**2,932**	**2,960**	**3,122**	**3,221**	**3,197**	**3,144**
PP&E	2,418	2,454	2,682	2,798	2,785	2,752
Right-of-use assets	384	378	294	283	267	244
Deferred income tax	7	7	5	5	5	5
Investment in JVs & assos	35	31	30	29	28	27
Intangibles	8	6	4	4	3	1
Other non-current assets	81	86	107	102	110	116
Total assets	**6,574**	**7,257**	**7,440**	**7,488**	**7,751**	**7,828**
Current liabilities	**3,226**	**2,859**	**3,040**	**2,976**	**3,216**	**3,257**
Short-term borrowings	1,448	966	1,149	967	1,069	1,005
Account payables	1,373	1,490	1,492	1,591	1,705	1,798
Other current liabilities	307	261	287	301	326	342
Lease liabilities	31	44	15	19	18	16
Contract liabilities	68	99	96	99	98	96
Non-current liabilities	**559**	**1,559**	**1,403**	**1,300**	**1,097**	**891**
Long-term borrowings	460	1,460	1,321	1,221	1,021	821
Other non-current liabilities	99	99	82	79	76	70
Total liabilities	**3,785**	**4,418**	**4,442**	**4,276**	**4,312**	**4,148**
Share capital	175	174	174	174	174	174
Other reserves	2,614	2,664	2,824	3,038	3,265	3,506
Total shareholders equity	**2,788**	**2,838**	**2,998**	**3,212**	**3,439**	**3,680**
Total equity and liabilities	**6,574**	**7,257**	**7,440**	**7,488**	**7,751**	**7,828**

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (HK$ mn)						
Operating						
Profit before taxation	**180**	**231**	**304**	**357**	**403**	**455**
Depreciation & amortization	276	272	276	296	323	343
Tax paid	(10)	(26)	(53)	(71)	(89)	(114)
Change in working capital	(213)	(134)	(139)	32	(31)	(25)
Others	27	30	(13)	125	100	87
Net cash from operations	**259**	**372**	**375**	**738**	**705**	**746**
Investing						
Capital expenditure	(368)	(339)	(401)	(402)	(301)	(301)
Acquisition of subsidiaries/ investments	(4)	(14)	0	0	0	0
Net proceeds from disposal of short-term investments	14	0	9	0	0	0
Others	22	7	(32)	4	7	20
Net cash from investing	**(337)**	**(346)**	**(424)**	**(398)**	**(294)**	**(282)**
Financing						
Dividend paid	(21)	(57)	(67)	(69)	(89)	(100)
Net borrowings	6	518	35	(385)	(177)	(332)
Share repurchases	0	(11)	0	0	0	0
Others	(3)	(35)	(24)	(22)	(22)	(20)
Net cash from financing	**(18)**	**415**	**(56)**	**(476)**	**(288)**	**(452)**
Net change in cash						
Cash at the beginning of the year	1,406	1,318	1,722	1,611	1,476	1,599
Exchange difference	9	(37)	(7)	0	0	0
Cash at the end of the year	**1,318**	**1,722**	**1,611**	**1,476**	**1,599**	**1,611**

GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	27.4%	22.7%	(1.4%)	6.3%	7.0%	5.6%
Gross profit	37.2%	23.6%	3.2%	7.2%	6.4%	6.1%
Operating profit	194.0%	29.2%	22.3%	20.3%	5.5%	6.8%
EBITDA	82.4%	15.0%	27.6%	6.9%	6.5%	7.6%
EBIT	597.3%	36.5%	52.7%	6.7%	5.0%	8.6%
Net profit	na	32.8%	15.1%	20.3%	10.2%	8.6%

PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	19.8%	20.0%	20.9%	21.1%	21.0%	21.1%
Operating margin	4.4%	4.6%	5.7%	6.5%	6.4%	6.5%
EBITDA margin	9.5%	8.9%	11.5%	11.5%	11.5%	11.7%
Return on equity (ROE)	5.7%	7.3%	8.1%	9.2%	9.4%	9.6%

GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Current ratio (x)	1.1	1.5	1.4	1.4	1.4	1.4

VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	8.7	6.6	5.7	4.8	4.3	4.0
P/E (diluted)	8.7	6.6	5.7	4.8	4.3	4.0
P/B	0.5	0.5	0.5	0.4	0.4	0.4
P/CFPS	5.2	3.7	3.6	1.8	1.9	1.8
Div yield (%)	3.5	4.5	5.2	6.3	6.9	8.0

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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