

Intron Tech (1760 HK)

1H24 below on weaker margin; Lower estimates on near-term industry headwinds

Intron Tech reported 1H24 revenue of RMB 2.84bn (+8% YoY) and net profit of RMB 97.7mn (-37% YoY), both below our/consensus estimates, mainly due to the GPM decline to 15.9% (-4.7ppts YoY) on intensified competition and price pressure from auto OEM customers. Looking ahead to 2H24E, mgmt. guided net profit margin to recover HoH on new order wins in new energy/ADAS and overseas customer expansion. We trim FY24-25E EPS by 43-49% to factor in the 1H24 miss, margin pressure and weaker topline growth. Despite near-term industry headwinds, we think the current valuation of 5.4x/3.2x FY24/25E P/E is attractive compared with A/H share peers. Our new TP of HK\$ 2.35 is based on a lowered 10x FY24E P/E for near-term industry headwinds (vs prior 12x P/E). Upcoming catalysts include rising ADAS penetration and NEV client share gains.

- **1H24 earnings below expectations due to margin weakness.** By segment, new energy/automation & connectivity/cloud server revenue delivered strong growth 16%/13%/25% YoY, while body control/safety/powertrain segments were weak at +1%/-9%/-26% YoY. We are encouraged by solid growth from new energy segment, given rising client penetration and market share gains on new projects. 1H24 GPM came in at 15.9% (vs. 20.6% in 1H23), reflecting pricing pressure along the auto supply chain. 1H24 R&D expense ratio was lower at 7.6% (vs. 8.9% in 1H23), and mgmt. expected a normalized level of R&D spending in FY24E.
- **2H24E outlook: new orders and customer wins to offset industry headwinds.** Mgmt. expects Intron's topline growth to remain solid in 2H24E driven by China NEV exports and HEV demand, while margin pressure might persist in near term given downstream client pricing pressure. Mgmt. also expected overseas market expansion to serve as key growth driver in FY25/26E, after recent office expansion in Hong Kong and Europe. Overall, we estimate Intron's revenue/net profit to grow +9%/-29% YoY in FY24E.
- **Expect margin to recover gradually in FY25E; Maintain BUY.** We trim FY24-25E EPS by 43-49% to reflect weak 1H24 results and margin pressure in 2H24E. Our new TP of HK\$2.35 is based on a lowered 10x FY24E P/E (vs. previous 12x FY24E P/E). Trading at 5.4x/3.2x FY24/25E P/E, we think Intron's valuation is attractive, as we expect new order wins and overseas expansion will drive margin recovery in FY25/26E.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	4,830	5,802	6,320	7,240	8,420
YoY growth (%)	52.1	20.1	8.9	14.6	16.3
Net profit (RMB mn)	415.0	317.4	224.6	370.6	489.0
YoY growth (%)	106.9	(23.5)	(29.2)	65.0	32.0
EPS (Reported) (RMB)	0.38	0.29	0.21	0.34	0.45
Consensus EPS (RMB)	N/A	N/A	0.33	0.42	0.53
P/E (x)	2.9	3.8	5.4	3.2	2.5
P/B (x)	0.6	0.5	0.5	0.4	0.4
Yield (%)	11.8	8.0	5.7	9.4	12.4
ROE (%)	21.3	14.1	9.2	14.0	16.5

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **HK\$2.35**
(Previous TP) HK\$5.53
Up/Downside **93.9%**
Current Price **HK\$1.21**

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Stock Data

Mkt Cap (HK\$ mn)	1,315.8
Avg 3 mths t/o (HK\$ mn)	0.5
52w High/Low (HK\$)	3.52/1.21
Total Issued Shares (mn)	1087.5

Source: FactSet

Shareholding Structure

Magnate Era Ltd	48.3%
Luk Wing Ming	6.9%

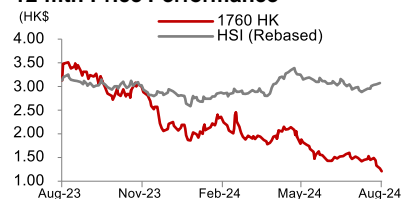
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-18.2%	-21.3%
3-mth	-35.6%	-31.5%
6-mth	-49.6%	-52.9%

Source: FactSet

12-mth Price Performance



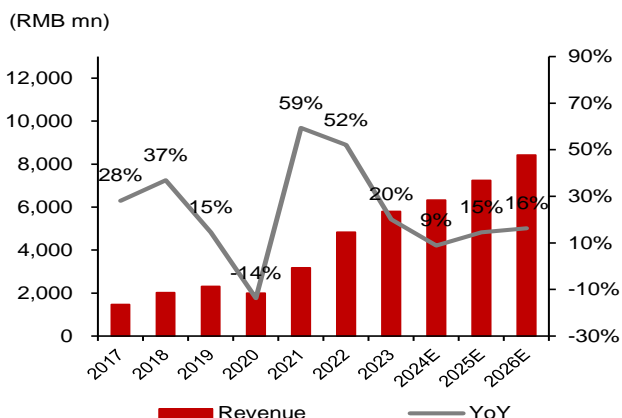
Source: FactSet

Related reports:

1. Intron Tech (1760 HK)-FY23 mostly in-line; Expect easing headwinds in FY24E ([link](#))
2. Intron Tech (1760 HK)-FY23E Preview: industry headwinds mostly priced in; Awaiting recovery in FY24E ([link](#))

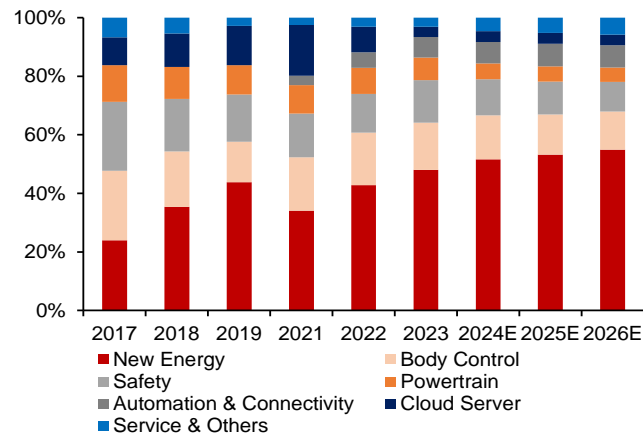
Focus Charts

Figure 1: Intron's revenue forecast



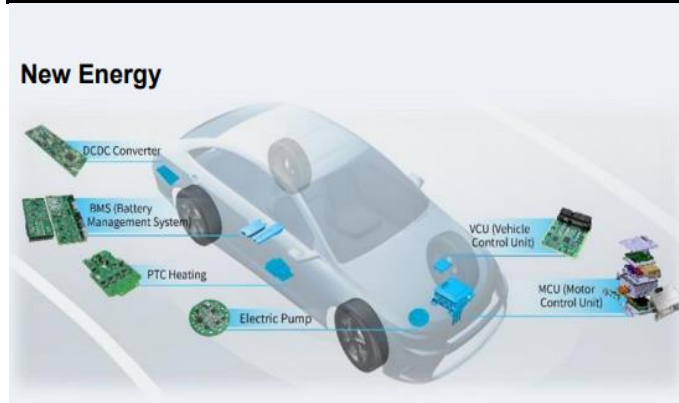
Source: Company data, CMBIGM estimates

Figure 2: Intron's revenue breakdown



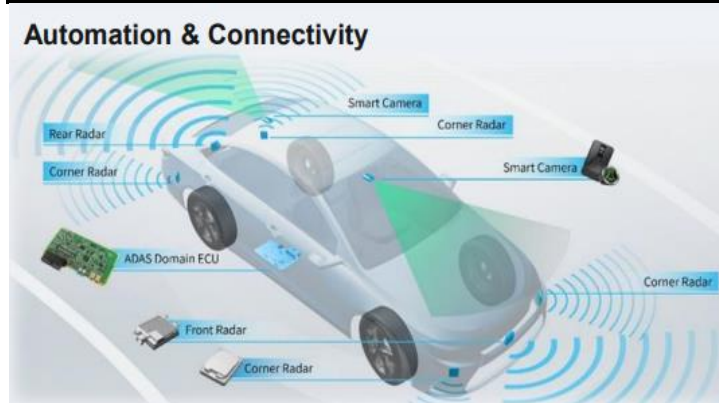
Source: Company data, CMBIGM estimates

Figure 3: Intron's new energy vehicle solutions



Source: Company data, CMBIGM

Figure 4: Intron's intelligent vehicle solutions



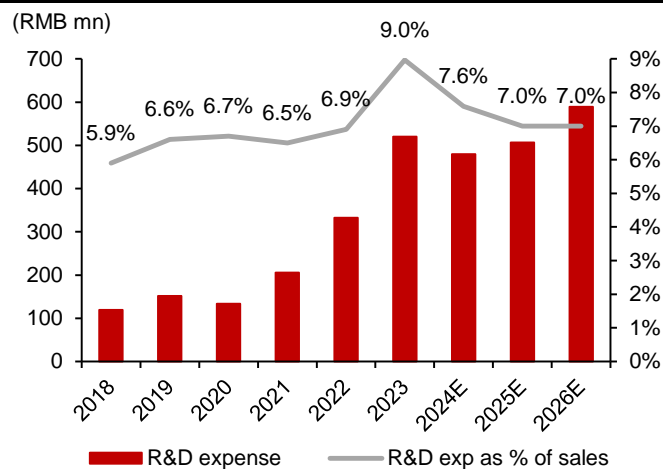
Source: Company data, CMBIGM

Figure 5: Intron's industrial partners and clients



Source: Company data, CMBIGM

Figure 6: Intron's R&D expense as % of total sales



Source: Company data, CMBIGM estimates

Earnings Forecasts

Figure 7: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	6,320	7,240	8,420	6,818	7,982	9,258	-7%	-9%	-9%
Gross profit	1,020	1,231	1,474	1,232	1,479	1,743	-17%	-17%	-15%
Net profit	225	371	489	358	458	577	-37%	-19%	-15%
EPS (RMB)	0.21	0.34	0.45	0.33	0.42	0.53	-37%	-19%	-16%
Gross margin	16.1%	17.0%	17.5%	18.1%	18.5%	18.8%	-1.9 ppt	-1.5 ppt	-1.3 ppt
Net Margin	3.6%	5.1%	5.8%	5.3%	5.7%	6.2%	-1.7 ppt	-0.6 ppt	-0.4 ppt

Source: Bloomberg, CMBIGM estimates

Figure 8: Earnings Revision

RMB mn	New			Old			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	6,320	7,240	8,420	6,975	8,661	10,805	-9%	-16%	-22%
Gross profit	1,020	1,231	1,474	1,298	1,672	2,125	-21%	-26%	-31%
Net profit	225	371	489	441	656	902	-49%	-43%	-46%
EPS (RMB)	0.21	0.34	0.45	0.40	0.60	0.82	-49%	-43%	-45%
Gross margin	16.1%	17.0%	17.5%	18.6%	19.3%	19.7%	-2.5 ppt	-2.3 ppt	-2.2 ppt
Net Margin	3.6%	5.1%	5.8%	6.3%	7.6%	8.3%	-2.8 ppt	-2.5 ppt	-2.5 ppt

Source: CMBIGM estimates

Figure 9: Revenue breakdown by segment

RMB mn	2022	2023	1H24	2H24E	2024E	2025E	2026E
New Energy	2,067	2,788	1,453	1,811	3,263	3,851	4,621
... YoY	91.0%	34.9%	15.9%	18.0%	17.1%	18.0%	20.0%
Body Control	868	934	423	528	951	998	1,098
... YoY	50.0%	7.7%	1.4%	2.0%	1.7%	5.0%	10.0%
Safety	636	845	355	418	773	812	853
... YoY	33.5%	32.8%	-8.9%	-8.0%	-8.4%	5.0%	5.0%
Powertrain	432	446	161	182	343	378	415
... YoY	39.9%	3.3%	-26.3%	-20.0%	-23.1%	10.0%	10.0%
Automation & Connectivity	255	405	230	232	461	554	637
... YoY	151.3%	58.8%	13.0%	15.0%	14.0%	20.0%	15.0%
Cloud Server	420	202	109	126	235	270	311
... YoY	-23.5%	-52.0%	24.9%	10.0%	16.4%	15.0%	15.0%
Service & Others	152	183	105	189	293	377	486
... YoY	91.8%	20.3%	83.4%	50.0%	60.4%	28.7%	28.7%
Revenue	4,830	5,802	2,835	3,485	6,320	7,240	8,420
... YoY	52.1%	20.1%	8.0%	9.7%	8.9%	14.6%	16.3%

Source: Company, CMBIGM estimates.

Figure 10: P&L forecast

RMB mn	2022	2023	1H24	2H24E	2024E	2025E	2026E
Revenue	4,830	5,802	2,835	3,485	6,320	7,240	8,420
...YoY	52.1%	20.1%	8.0%	9.7%	8.9%	14.6%	16.3%
Cost of sales	(3,789)	(4,719)	(2,383)	(2,917)	(5,300)	(6,009)	(6,947)
Gross profit	1,041	1,084	452	568	1,020	1,231	1,474
GPM (%)	21.5%	18.7%	15.9%	16.3%	16.1%	17.0%	17.5%
...YoY	66.4%	4.1%	-16.5%	4.7%	-5.9%	20.7%	19.7%
 S&M	(106)	(113)	(48)	(66)	(114)	(123)	(143)
...% of rev	-2.2%	-2.0%	-1.7%	-1.9%	-1.8%	-1.7%	-1.7%
R&D	(332)	(520)	(215)	(265)	(480)	(507)	(589)
...% of rev	-6.9%	-9.0%	-7.6%	-7.6%	-7.6%	-7.0%	-7.0%
Admin	(95)	(79)	(34)	(45)	(79)	(94)	(109)
...% of rev	-2.0%	-1.4%	-1.2%	-1.3%	-1.3%	-1.3%	-1.3%
Pre-tax profit	455	302	82	137	219	405	535
Pre-tax profit margin (%)	9.4%	5.2%	2.9%	3.9%	3.5%	5.6%	6.4%
...YoY	109.9%	-33.6%	-43.7%	-12.5%	-27.5%	85.0%	32.0%
 Net profit	415	317	98	127	225	371	489
NPM (%)	8.6%	5.5%	3.4%	3.6%	3.6%	5.1%	5.8%
...YoY	106.9%	-23.5%	-36.8%	-22.1%	-29.2%	65.0%	32.0%

Source: Company data, CMBIGM estimates

Valuation

Maintain BUY with new TP of HK\$2.35.

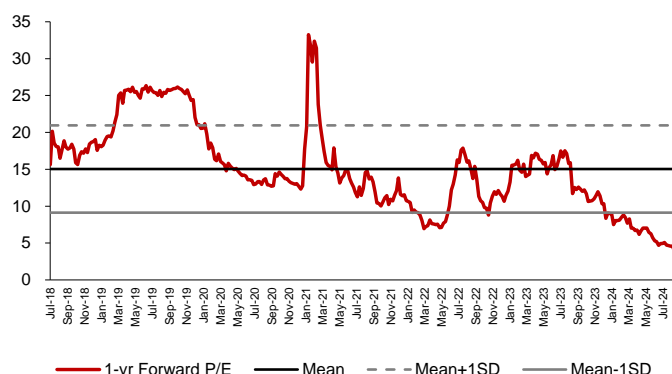
Our new TP of HK\$2.35 is based on a lowered 10x FY24E P/E for near-term industry headwinds. Intron now trades at 5.4x/3.2x FY24/25E P/E, vs 14.5x/13.6x FY24/25E P/E for A/H-listed automobile components/solutions peers. We think Intron is undervalued, especially considering its high ROE level. Upcoming catalysts include rising ADAS penetration and NEV client share gains.

Figure 11: Intron Tech's peers valuation

Company	Ticker	CMBI Rating	Market Cap (US\$mn)	Price (LC)	TP (LC)	Up/Down -side	P/E (x)		P/B (x)		ROE (%)	
							FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Intron Tech	1760 HK	Buy	169	1.21	2.35	94%	5.4	3.2	0.5	0.4	9.2	14.0
BOE Varitronix	710 HK	Buy	459	4.52	10.48	132%	8.2	6.5	0.4	0.3	9.6	11.2
BYD Electronics	285 HK	Buy	8,522	29.50	45.3	53%	11.8	8.6	3.2	2.5	27.0	29.2
Sunny Optical	2382 HK	Buy	6,506	46.35	72.5	56%	18.5	15.5	1.9	1.7	10.1	11.2
Luxshare	002475 CH	Buy	37,005	36.60	45.1	23%	19.5	15.9	3.1	2.6	16.0	16.4
Desay SV	002920 CH	NR	6,645	85.30	NA	NA	22.9	17.5	4.9	4.0	22.5	23.6
Foryou Corp	002906 CH	NR	1,673	22.72	NA	NA	18.7	14.2	1.8	1.7	9.9	11.8
Joyson	600699 CH	NR	2,667	13.49	NA	NA	13.2	10.4	1.3	1.2	10.0	11.7
Jingwei Hirain	688326 CH	NR	1,005	59.69	NA	NA	-	31.4	1.4	1.4	0.2	3.9
Average							14.5	13.6	2.1	1.8	13.4	15.1

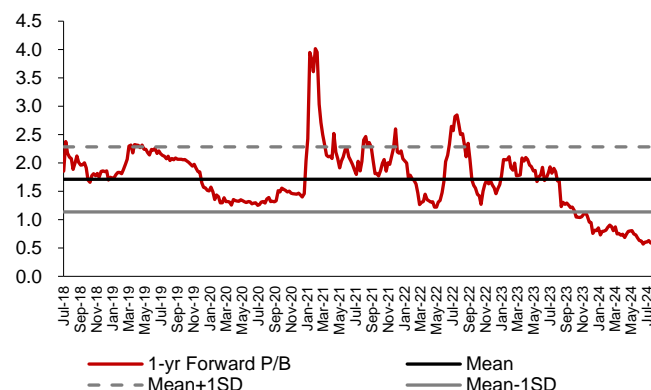
Source: Bloomberg, CMBIGM estimates

Figure 12: 12M forward P/E band



Source: Bloomberg, CMBIGM estimates

Figure 13: 12M forward P/B band



Source: Bloomberg, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	3,176	4,830	5,802	6,320	7,240	8,420
Cost of goods sold	(2,551)	(3,789)	(4,719)	(5,300)	(6,009)	(6,947)
Gross profit	625	1,041	1,084	1,020	1,231	1,474
Selling expense	(101)	(106)	(113)	(114)	(123)	(143)
Admin expense	(313)	(427)	(599)	(559)	(601)	(699)
Other income	30	40	83	36	36	36
Other expense	(2)	(50)	(51)	(65)	(51)	(59)
Share of (losses)/profits of associates/JV	1	2	(0)	0	0	0
Net Interest income/(expense)	(24)	(45)	(100)	(102)	(87)	(74)
Pre-tax profit	217	455	302	216	405	535
Income tax	(17)	(44)	10	7	(24)	(32)
After tax profit	200	411	313	222	381	503
Minority interest	(0)	(4)	(5)	(6)	(10)	(14)
Net profit	201	415	317	225	371	489
Gross dividends	60	126	97	68	113	149

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	2,294	3,351	4,571	4,654	5,190	5,424
Cash & equivalents	572	337	517	784	493	778
Account receivables	1,163	1,698	1,848	1,982	2,277	2,677
Inventories	498	1,086	1,554	1,235	1,769	1,318
Prepayment	27	182	506	506	506	506
ST bank deposits	32	49	145	145	145	145
Financial assets at FVTPL	0	0	0	0	0	0
Other current assets	0	0	0	0	0	0
Contract assets	1	0	0	0	0	0
Non-current assets	565	724	972	915	920	954
PP&E	170	195	250	217	214	219
Right-of-use assets	33	33	41	45	51	73
Deferred income tax	42	54	106	106	106	106
Intangibles	224	325	363	335	337	344
Financial assets at FVTPL	76	85	143	143	143	143
Other non-current assets	20	32	69	69	69	69
Total assets	2,859	4,075	5,543	5,569	6,110	6,378
Current liabilities	1,097	1,907	2,899	2,767	3,041	2,955
Short-term borrowings	632	950	1,384	1,384	1,384	1,384
Account payables	237	331	596	464	738	652
Tax payable	18	27	55	55	55	55
Other current liabilities	1	1	3	3	3	3
Lease liabilities	15	20	16	16	16	16
Accrued expenses	194	578	845	845	845	845
Non-current liabilities	19	20	286	286	286	286
Long-term borrowings	0	0	268	268	268	268
Other non-current liabilities	19	20	18	18	18	18
Share capital	9	9	9	9	9	9
Other reserves	1,733	2,129	2,344	2,501	2,769	3,122
Total shareholders equity	1,743	2,149	2,359	2,516	2,784	3,137
Minority interest	1	11	6	6	6	6
Total equity and liabilities	2,859	4,075	5,543	5,569	6,110	6,378

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	217	455	302	219	405	535
Depreciation & amortization	60	85	99	107	111	99
Tax paid	(22)	(42)	38	7	(24)	(32)
Change in working capital	(285)	(797)	(87)	53	(554)	(35)
Others	16	6	0	0	0	0
Net cash from operations	(15)	(293)	352	386	(63)	566
Investing						
Capital expenditure	(159)	(200)	(129)	(120)	(115)	(132)
Acquisition of subsidiaries/ investments	0	0	0	0	0	0
Net proceeds from disposal of short-term investments	0	26	0	0	0	0
Others	(64)	(21)	0	0	0	0
Net cash from investing	(222)	(194)	(129)	(120)	(115)	(132)
Financing						
Dividend paid	(29)	(63)	(97)	(68)	(113)	(149)
Net borrowings	208	269	0	0	0	0
Proceeds from share issues	253	0	0	0	0	0
Others	(4)	(0)	0	0	0	0
Net cash from financing	428	205	(97)	(68)	(113)	(149)
Net change in cash						
Cash at the beginning of the year	388	572	337	517	784	493
Exchange difference	(8)	47	54	71	0	0
Cash at the end of the year	572	337	517	784	493	778

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

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