

03 Sep, 2024

Intron | 01760.HK

Maintaining conservative outlook

STOCK RATING

BUY

TARGET PRICE

HK\$ 1.95

Intron (01760.HK) had a tough time in 2024 1H. The revenue growth rate decelerated to YoY 8%, and the gross margin plunged, again, to 15.9%, bringing a 3.4% net margin to the Group.

A disappointing performance in the top-line: Breaking down the revenue by segment, Intron (01760.HK) recorded YoY 15.9% (2023 1H: 58.1%) / 1.4% (-3.2%) / -8.9% (43.1%) / -26.3% (41.0%) / 13.0% (117.7%) / 24.9% (-71.1%) growth in the NEV / Body Control / Safety / Powertrain / Automated & Connected Vehicles / Cloud Server segments respectively, realizing the slowest growth in the top-line since 2021. The deceleration was primarily a result of the sluggish automotive market, bringing a strong headwind to the ADAS and new energy vehicles segments, the previous major drivers for Intron (01760.HK). Although the penetration rate of NEV kept increasing, the fierce price competition squeezed the profit margin of upstream participants and deterred the OEMs from upgrading the hardware of ADAS, limiting the growth potential of the Group.

Limited room for improvement in the pricing strategies: The gross margin of Intron (01760.HK) dropped further from 17.1% in 2023 2H to 15.9% in 2024 1H. The price competition in the automotive market continued to put huge pressure on the Group, forcing it to adjust its pricing strategies, and it is especially severe in the ADAS segment. We believe that an amelioration may be realized through i) an increase in ASP, ii) the provision of upgraded solutions, but, unfortunately, it is difficult to have a material turnaround unless there is an improvement in the price competition.

Potential recovery in 2025: Fortunately, we see some positive signals showing that there may be a turnaround in 2025. The mass production of the new solutions with "Motor Control Unit Power Brick" is expected to be carried out in 2025 2H, the contribution will be more significant in 2026, and the profit margin will be normalized for new solutions. In addition, the revenue contributed from rendering services boomed YoY 83.4%, implying that the Group has a great potential to gain more designated projects. Furthermore, more orders may come from GAC due to the growing contribution of self-developed batteries. Therefore, Intron (01760.HK) may commence to recover next year, and the profit margin may be normalized in 2026.

Maintaining conservative outlook: Although there was an improvement in the sales volume of automotive, especially NEV, the price competition is our primary concern in forecasting a potential turnaround for Intron (01760.HK). We further cut our estimates and the TP to HKD 1.95/share to reflect the setback and the longer recovery time, and we may see positive signals in late 2025.

COMPANY UPDATE

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Intron (01760.HK)

Stock Rating **BUY** (BUY)

Target Price **HK\$ 1.95** (HK\$ 2.85)

 Current Price **HK\$ 1.19**

 52-Week Range **HK\$ 1.17 – 3.60**

 Market cap. (HKD, bn) **1.3**

RMB, mn	23(A)	24(E)	25(E)	26(E)
Revenue	5,802.3	6,277.2	6,849.5	7,393.7
Gross Profit	1,083.6	1,002.7	1,155.2	1,316.5
Gross Margin	18.7%	16.0%	16.9%	17.8%
Net Profit	312.5	212.9	223.0	310.6
EPS	0.292	0.200	0.209	0.289

Performance	1 mth	3 mth	6 mth	1 year
Absolute	-24.0%	-34.6%	-44.4%	-63.9%
Relative to HSI	-24.0%	-32.5%	-51.1%	-60.2%



Peers comparison

		Mkt. Cap.	P/E	Fw. P/E	P/B	P/S	Revenue	GM	ROE
		(HKD, mn)	(x)	(x)	(x)	(x)	(HKD, mn)	(%)	(%)
01274.HK	iMotion	6,439.1	(29.9)	-	2.3	4.4	1,344.7	9.9	(21.8)
002906.CH	Foryou	13,252.3	21.0	-	2.0	1.4	7,890.1	22.4	11.0
002920.CH	Desay	53,933.0	27.5	-	5.9	2.0	24,220.3	20.4	23.3
688326.CH	Hirain Tech.	7,780.1	(16.2)	-	1.6	1.4	5,171.3	25.6	(9.7)
MBLY.US	Mobileye	90,300.8	(51.7)	33.4	0.8	6.2	16,276.2	50.4	(1.5)
Average – Solution Providers		34,341.1	(9.8)	33.4	2.5	3.1	10,980.5	25.7	0.3
IFNNY.US	Infineon	371,948.8	-	17.5	-	-	136,386.3	45.5	13.6
MCHP.US	Microchip	343,677.3	32.9	37.7	6.9	6.7	59,734.9	65.4	20.7
NXPI.US	NXP	509,157.3	20.4	18.0	7.2	5.0	103,936.0	56.9	32.4
ON.US	On Semi.	260,070.9	16.8	18.7	4.0	4.3	64,611.6	47.1	25.3
STM.US	STMicroelectronics	225,001.9	8.6	20.1	1.7	1.9	135,329.8	47.9	19.7
Average – Semi. suppliers		341,971.2	19.7	22.4	5.0	4.5	99,999.7	52.6	22.3
01760.HK	Intron	1,305.4	4.5	-	0.5	0.2	6,414.7	18.7	11.5

Source: Bloomberg, Choice, West Bull Securities

Risk factors

- Limited upside potential on the pricing and hence profit margin due to the fierce competition in the downstream
- The price war in the downstream results in a slower penetration for ADAS
- Delay in the mass production of “Motor Control Unit Power Brick”
- Heavy interest burden caused by high interest rate

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	6,277.2	6,849.5	7,393.7	PPE	249.9	270.1	272.6	276.8
YoY growth	20.1%	8.2%	9.1%	7.9%	Others	722.5	802.0	832.0	842.1
COGS	(4,718.7)	(5,274.5)	(5,694.3)	(6,077.1)	Non-current assets	972.4	1,072.1	1,104.6	1,118.9
Gross profit	1,083.6	1,002.7	1,155.2	1,316.5	Inventories	1,554.3	1,612.2	1,725.8	1,761.6
Other income	82.5	21.7	18.8	16.6	Trade receivables	1,848.2	1,708.6	1,849.2	1,914.6
Operating expenses	(763.7)	(726.6)	(833.4)	(900.0)	Cash & cash equivalents	517.0	474.2	509.4	489.0
Operating profit	402.5	297.9	340.6	433.1	Others	651.5	995.2	1,029.8	975.6
Finance expenses	(100.0)	(94.3)	(92.5)	(88.2)	Current assets	4,571.0	4,790.2	5,114.1	5,140.9
JV & Ass.	(0.2)	(0.8)	(0.3)	0.2	Total assets	5,543.4	5,862.2	6,218.7	6,259.8
Profit before tax	302.2	202.8	247.8	345.1	LT borrowings	267.7	410.1	428.0	391.8
Tax	10.3	10.2	(24.8)	(34.5)	Others	18.2	24.9	25.7	23.8
Net profit	312.5	212.9	223.0	310.6	Non-current liabilities	285.9	435.1	453.7	415.6
YoY growth	-24.0%	-31.9%	4.7%	39.3%	Trade payables	595.9	518.3	563.0	536.5
					ST borrowings	1,384.0	1,454.1	1,577.7	1,503.5
					Others	918.8	954.7	939.6	847.6
					Current liabilities	2,898.8	2,927.0	3,080.3	2,887.5
					Total liabilities	3,184.7	3,362.1	3,534.0	3,303.2
					Non-controlling interests	5.9	1.4	(2.9)	(7.2)
					Controlling interests	2,352.8	2,498.8	2,687.6	2,963.9
					Total equities	2,358.7	2,500.1	2,684.7	2,956.6

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	202.8	247.8	345.1	Gross margin	18.7%	16.0%	16.9%	17.8%
Finance expenses	100.0	94.3	92.5	88.2	Operating margin	6.9%	4.7%	5.0%	5.9%
Finance income	(7.7)	(11.7)	(10.8)	(11.6)	Net profit margin	5.4%	3.4%	3.3%	4.2%
D&A	62.4	61.5	63.2	61.0	Adj. EBITDA profit margin	8.2%	5.4%	5.8%	6.6%
Others	(545.1)	(55.6)	(165.4)	(93.5)	Return on Equity	13.9%	8.8%	8.6%	11.0%
Change in working capital	57.6	(64.0)	(54.8)	(93.2)	Return on Asset	6.5%	3.7%	3.7%	5.0%
CFO	(30.5)	227.3	172.4	296.0	Current ratio	157.7%	163.7%	166.0%	178.0%
					Quick ratio	104.1%	101.8%	100.6%	105.8%
CAPEX	(173.3)	(203.2)	(168.3)	(148.3)	Cash ratio	17.8%	16.2%	16.5%	16.9%
Others	(56.6)	(3.0)	-	-	Debt-to-Equity ratio	70.0%	74.6%	74.7%	64.1%
CFI	(229.9)	(206.2)	(168.3)	(148.3)	Net Debt-to-Equity ratio	48.1%	39.2%	39.8%	34.3%
					Inventory turnover days	104.0	109.6	107.0	104.7
Shares issuance	-	-	-	-	Receivable turnover days	102.3	99.1	91.5	89.6
Net borrowings	701.5	70.0	123.6	(74.3)	Payable turnover days	35.8	38.6	34.7	33.0
Interest paid	-	-	-	-					
Dividend paid	(127.0)	(97.0)	(65.2)	(68.2)					
Others	(134.1)	(37.0)	(27.4)	(25.6)					
CFF	440.4	(63.9)	31.0	(168.1)					
FCFE	497.7	94.1	127.8	73.5					
FCFF	(100.4)	123.1	87.4	227.1					

Source: Company data, West Bull Securities

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