

EVA Holdings (838 HK)

On track to tier-1 supplier transformation

We believe that EVA's auto parts business is on track to transform into a tier-1 supplier with more orders from OEMs to lift FY25E revenue, based on our recent meeting with management. Although we cut our FY24E revenue and NP by 3% and 9%, respectively, amid its cautious approach to maintain GPM, we see higher earnings visibility in FY25E. We estimate its dividend yield to be 7% now.

■ **More new orders from Changan and Stellantis.** EVA's Chongqing plant starts to supply Changan (000625 CH, NR) from mid-Sep as previously scheduled. Total order backlog from Changan has increased to HK\$1bn, with a revenue contribution of about HK\$130-140mn in FY25E, according to management. Its Wuhan plant has also secured new orders from Stellantis (STLA US, NR) and we expect more orders from Stellantis in EVA's Mexico plant. Therefore, we project auto parts revenue to rise 15% YoY to HK\$2.34bn in FY25E.

■ **A more cautious approach to maintain margins.** We cut our FY24E revenue forecast by 3% to HK\$6.38bn, as new orders mainly start from FY25E and EVA has been cutting low-margin orders to sustain margins amid industry headwinds. We therefore maintain our GPM forecasts at around 21% in FY24-26E.

■ **OA profit to be stable.** EVA's office automation (OA) GPM in 1H24 widened by about 1ppt YoY amid 2.5% YoY growth in the segment revenue. We expect OA GPM to continue widening HoH in 2H24E after the inventory destocking in 1Q24 (which resulted in a 2% YoY decrease in its Vietnam plant in 1H24).

■ **Earnings/Valuation.** We revise down our FY24/25E net profit estimates by 9%/4% to HK\$260mn/301mn, respectively. We project FY25E operating profit to rise 15% YoY amid 8% YoY growth in revenue and better SG&A control. We expect interest expense to decrease in FY25E, which is to be offset by a possible higher tax rate. The stock is now trading at 4.3x our FY24E P/E. We expect the company to maintain a 30% dividend payout ratio, which would translate into a dividend yield of 7%.

We maintain our BUY rating but cut our target price slightly from HK\$1.50 to HK\$1.40, based on the sum-of-the-parts (SOTP) valuation (details in Figure 6). We value HK\$0.5 per share (unchanged) for its auto parts business, based on 11x our FY25E P/E (prior 13x our FY24E). We value HK\$0.90 (previously HK\$1.00) per share for its OA business, based on 7x our FY25E P/E (prior 8x our FY24E). We lower our valuation multiples as we roll over to FY25E to reflect higher uncertainties. Key risks to our rating and target price include lower order intakes and GPM than we expect.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (HK\$ mn)	6,268	6,183	6,377	6,856	7,226
YoY growth (%)	22.7	(1.4)	3.1	7.5	5.4
Net profit (HK\$ mn)	206.0	237.1	259.9	300.8	326.5
YoY growth (%)	32.8	15.1	9.6	15.7	8.6
EPS (Reported) (HK\$)	0.12	0.14	0.15	0.17	0.19
P/E (x)	5.4	4.7	4.3	3.7	3.4
P/B (x)	0.4	0.4	0.4	0.3	0.3
Yield (%)	5.5	6.4	7.0	8.1	9.4
ROE (%)	7.3	8.1	8.4	9.1	9.3

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$1.40
(Previous TP)	HK\$1.50)
Up/Downside	118.8%
Current Price	HK\$0.64

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Stock Data

Mkt Cap (HK\$ mn)	1,114.2
Avg 3 mths t/o (HK\$ mn)	0.8
52w High/Low (HK\$)	0.84/0.62
Total Issued Shares (mn)	1740.9

Source: FactSet

Shareholding Structure

Zhang Hwo Jie's Family	43.0%
Others	57.0%

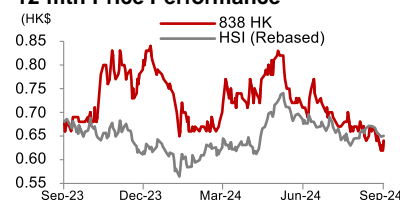
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-4.5%	-5.2%
3-mth	-9.9%	-6.2%
6-mth	-11.1%	-11.9%

Source: FactSet

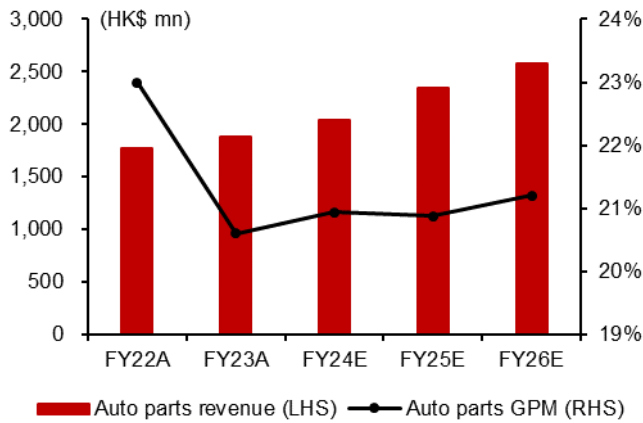
12-mth Price Performance



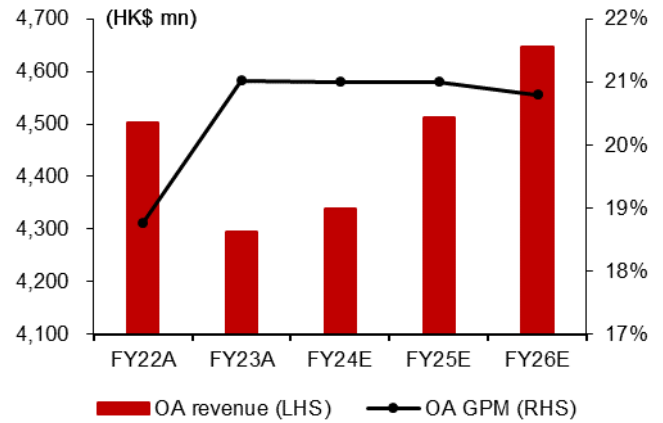
Source: FactSet

Related Report

["EVA Holdings \(838 HK\) - In a transition from tier-2 to tier-1 supplier"- 7 May 2024](#)

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: Interim results

HK\$ mn	1H22	2H22	1H23	2H23	1H24	YoY	HoH
Revenue	2,940	3,328	2,862	3,321	3,000	4.8%	-9.7%
Gross profit	565	686	545	747	603	10.6%	-19.3%
Selling expenses	(124)	(245)	(125)	(201)	(117)	-6.6%	-41.8%
Admin expenses	(333)	(282)	(289)	(372)	(304)	5.4%	-18.1%
Operating profit	121	152	189	202	189	-0.1%	-6.4%
Net profit	103	103	123	114	128	4.2%	11.7%
Gross margin	19.2%	20.6%	19.0%	22.5%	20.1%	1.0 ppt	-2.4 pts
Operating margin	4.1%	4.6%	6.6%	6.1%	6.3%	-0.3 pts	0.2 pts
Net margin	3.5%	3.1%	4.3%	3.4%	4.3%	0.0 pts	0.8 pts

Source: Company data, CMBIGM

Figure 4: Earnings revision

HK\$ mn	New			Old			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	6,377	6,856	7,226	6,571	7,030	7,423	-3.0%	-2.5%	-2.7%
Gross profit	1,338	1,437	1,513	1,385	1,474	1,564	-3.4%	-2.5%	-3.2%
Operating profit	380	437	470	421	456	498	-9.7%	-4.2%	-5.7%
Net profit	260	301	327	285	314	341	-8.8%	-4.2%	-4.2%
Gross margin	21.0%	21.0%	20.9%	21.1%	21.0%	21.1%	-0.1 pts	0.0 pts	-0.1 pts
Operating margin	6.0%	6.4%	6.5%	6.4%	6.5%	6.7%	-0.4 pts	-0.1 pts	-0.2 pts
Net margin	4.1%	4.4%	4.5%	4.3%	4.5%	4.6%	-0.3 pts	-0.1 pts	-0.1 pts

Source: CMBIGM estimates

Figure 5: CMBI estimates vs consensus

HK\$ mn	CMBIGM			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	6,377	6,856	7,226	6,571	7,030	7,423	-3.0%	-2.5%	-2.7%
Gross profit	1,338	1,437	1,513	1,385	1,474	1,564	-3.4%	-2.5%	-3.2%
Operating profit	380	437	470	421	456	498	-9.7%	-4.2%	-5.7%
Net profit	260	301	327	285	314	341	-8.8%	-4.2%	-4.2%
Gross margin	21.0%	21.0%	20.9%	21.1%	21.0%	21.1%	-0.1 pts	0.0 pts	-0.1 pts
Operating margin	6.0%	6.4%	6.5%	6.4%	6.5%	6.7%	-0.4 pts	-0.1 pts	-0.2 pts
Net margin	4.1%	4.4%	4.5%	4.3%	4.5%	4.6%	-0.3 pts	-0.1 pts	-0.1 pts

Source: Bloomberg, CMBIGM estimates

Figure 6: SOTP valuation

Segment	FY25E Net profit (HK\$ mn)	Target P/E Multiple	Target Market Cap (HK\$ mn)	Target Price (HK\$)
Auto components	77	11x	870	0.50
Office automation	223	7x	1,567	0.90
SOTP			2,437	1.40

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	6,377	6,856	7,226
Cost of goods sold	(4,096)	(5,017)	(4,891)	(5,039)	(5,419)	(5,712)
Gross profit	1,013	1,251	1,292	1,338	1,437	1,513
Operating expenses	(789)	(962)	(938)	(947)	(1,007)	(1,062)
Selling expense	(315)	(369)	(326)	(322)	(349)	(367)
Admin expense	(506)	(615)	(661)	(675)	(713)	(753)
Others	32	22	49	50	55	58
Operating profit	224	289	354	391	430	451
Gain/loss on financial assets at FVTPL	(24)	(8)	0	(7)	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	724	794	850
Depreciation	241	229	243	274	297	320
Depreciation of ROU assets	33	42	31	28	29	30
Other amortisation	2	2	2	2	2	2
EBIT	208	283	433	420	465	498
Interest income	13	10	42	41	30	29
Interest expense	(28)	(53)	(129)	(114)	(89)	(74)
Pre-tax profit	180	231	304	306	376	424
Income tax	(25)	(25)	(67)	(46)	(75)	(98)
After tax profit	155	206	237	260	301	327
Minority interest	0	0	0	0	0	0
Net profit	155	206	237	260	301	327
Gross dividends	47	61	71	78	90	104

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (HK\$ mn)						
Current assets	3,642	4,297	4,319	4,180	4,477	4,604
Cash & equivalents	1,318	1,722	1,611	1,466	1,591	1,608
Account receivables	1,382	1,681	1,820	1,834	1,953	2,019
Inventories	688	639	641	635	668	704
Prepayment	150	146	143	134	144	152
ST bank deposits	103	109	104	110	120	120
Non-current assets	2,932	2,960	3,122	3,223	3,254	3,242
PP&E	2,418	2,454	2,682	2,808	2,846	2,852
Right-of-use assets	384	378	294	286	272	252
Deferred income tax	7	7	5	5	5	5
Investment in JVs & assos	35	31	30	21	20	19
Intangibles	8	6	4	4	3	1
Other non-current assets	81	86	107	99	108	113
Total assets	6,574	7,257	7,440	7,403	7,730	7,846
Current liabilities	3,226	2,859	3,040	2,920	3,224	3,314
Short-term borrowings	1,448	966	1,149	966	1,129	1,118
Account payables	1,373	1,490	1,492	1,546	1,663	1,753
Other current liabilities	307	261	287	293	318	334
Lease liabilities	31	44	15	19	18	16
Contract liabilities	68	99	96	96	96	94
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	4,220	4,321	4,205
Share capital	175	174	174	174	174	174
Other reserves	2,614	2,664	2,824	3,009	3,236	3,466
Total shareholders equity	2,788	2,838	2,998	3,183	3,410	3,640
Total equity and liabilities	6,574	7,257	7,440	7,403	7,730	7,846

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (HK\$ mn)						
Operating						
Profit before taxation	180	231	304	306	376	424
Depreciation & amortization	276	272	276	304	328	352
Tax paid	(10)	(26)	(53)	(46)	(75)	(98)
Change in working capital	(213)	(134)	(139)	58	(35)	(20)
Others	27	30	(13)	141	107	90
Net cash from operations	259	372	375	763	701	748
Investing						
Capital expenditure	(368)	(339)	(401)	(422)	(361)	(351)
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)	(418)	(354)	(332)
Financing						
Dividend paid	(21)	(57)	(67)	(73)	(76)	(96)
Net borrowings	6	518	35	(395)	(124)	(283)
Share repurchases	0	(11)	0	0	0	0
Others	(3)	(35)	(24)	(22)	(22)	(20)
Net cash from financing	(18)	415	(56)	(490)	(222)	(399)
Net change in cash						
Cash at the beginning of the year	1,406	1,318	1,722	1,611	1,466	1,591
Exchange difference	9	(37)	(7)	0	0	0
Cash at the end of the year	1,318	1,722	1,611	1,466	1,591	1,608
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	27.4%	22.7%	(1.4%)	3.1%	7.5%	5.4%
Gross profit	37.2%	23.6%	3.2%	3.6%	7.4%	5.3%
Operating profit	194.0%	29.2%	22.3%	10.6%	9.9%	5.0%
EBITDA	82.4%	15.0%	27.6%	2.1%	9.6%	7.1%
EBIT	597.3%	36.5%	52.7%	(2.9%)	10.8%	7.0%
Net profit	na	32.8%	15.1%	9.6%	15.7%	8.6%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	19.8%	20.0%	20.9%	21.0%	21.0%	20.9%
Operating margin	4.4%	4.6%	5.7%	6.1%	6.3%	6.2%
EBITDA margin	9.5%	8.9%	11.5%	11.4%	11.6%	11.8%
Return on equity (ROE)	5.7%	7.3%	8.1%	8.4%	9.1%	9.3%
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	7.1	5.4	4.7	4.3	3.7	3.4
P/E (diluted)	7.1	5.4	4.7	4.3	3.7	3.4
P/B	0.4	0.4	0.4	0.4	0.3	0.3
P/CFPS	4.3	3.0	3.0	1.5	1.6	1.5
Div yield (%)	4.2	5.5	6.4	7.0	8.1	9.4

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

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