

Wanfeng Auto Wheel^(002085 CH)

Domestic Lightweight Leader start a new round of growth
China | Automobile part | Company Initiation

February 8 2021

Investment Summary

Leading Self-Brand in Aluminum Alloy Wheel Industry Continues to Expand in Scale

Wanfeng Auto Wheel was incorporated in 2001 with Wanfeng Group as the sponsor. It is a stock corporation jointly initiated by China Automotive Technology & Research Center Co., Ltd. and nine natural person shareholders. As at 30 June 2020, the Company had total assets of RMB15.99 billion, total liabilities of RMB8.32 billion and shareholders' equity of RMB5.58 billion, with an asset-liability ratio of 52%. The Company is a private enterprise. The actual controllers are Ms. Chen Ailian and Wu Liangding family, who actually hold 38.4% of the Company's shares as of Feb 4 2021.

The Company was listed on the SME Board of the Shenzhen Stock Exchange in 2006. It completed two private placements in 2011 and 2015, raising a total of approximately RMB3 billion to acquire aluminum alloy motorcycle wheels and magnesium alloy auto parts businesses. After nearly 20 years of organic development and inorganic acquisitions, the Company has established a "dual engine" growth strategy driven by the application of lightweight metal materials in auto parts industry and the general aviation aircraft manufacturing industry, including six major business sectors, namely, 1) aluminum alloy automobile wheels, 2) aluminum alloy motorcycle wheels, 3) magnesium alloy automobile die castings, 4) high-strength steel stamping parts and other metal castings, 5) environmentally friendly dacromet coatings, and 6) general aviation aircraft. As at H1 2020, their proportion of total revenue and gross profit accounted for 31%, 13%, 22%, 10%, 2.5% and 19%, respectively, and 27%, 9%, 17%, 11%, 4.3% and 28%, respectively.

The Company is leading in many sub-industry fields: The scale of aluminum alloy automobile wheels is the second largest in China with a leading position in the world, accounting for approximately 10% of the global market; the output of aluminum alloy motorcycle wheels accounts for approximately 35% of the global market, the largest in the world; the subsidiary Wuxi Xiongwei Precision-Machinery Sci-Tech Co., Ltd. is a domestic leader in high-strength steel stamping parts; its subsidiary Wanfeng MLTH Holdings Co., Ltd. is a global leader in magnesium alloys, accounting for approximately 65% of the North American market; the subsidiary Diamond Aircraft, a manufacturer of general aviation aircraft, is the top three general fixed-wing aircraft manufacturer in the world and a global leader in general aviation aircraft.

The Company's traditional business is aluminum alloy wheels. The Company is one of the drafters and revisors of international and national standards in the aluminum alloy wheel industry. It has an annual production output of more than 40 million sets of aluminum alloy wheels. Specifically, the Company's automotive wheel customers include American car brands like GM and Ford; European car brands including Volkswagen, BMW, Mercedes-Benz, Fiat Chrysler, Peugeot and Land Rover; Japanese car brands such as Toyota, Honda and Nissan; Korean car brand Hyundai-Kia and other well-known car companies. The customers also cover NIO, XPeng, BYD, Evergrande and other new energy car companies. Its motorcycle wheel customers include Honda, Yamaha, Haojue, Suzuki, Hero, BMW, Harley, Ducati and other manufacturers. In the next phase, the Company will focus on the in-depth expansion of European market customers and new energy vehicle customers. Its initial goal is to double the scale of automobile wheels within five years and improve the quality and guarantee the quantity of motorcycle wheels.

NA (Initiation)

CMP CNY 5.44

(Closing price as at 8 February)

TARGET NA

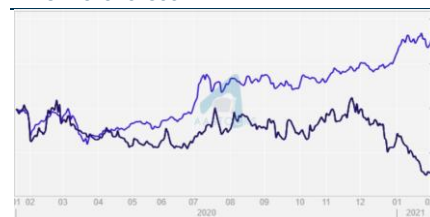
COMPANY DATA

O/S SHARES (MN) :	2187
MARKET CAP (CNY MN) :	11831
52 - WK HI/LO (CNY):	8.33/ 5.25

SHARE HOLDING PATTERN, %

Ms. Chen Ailian family	38.4
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PRICE VS. SHSZ300



Source: Aastock, Phillip Securities (HK) Research

KEY FINANCIALS

CNY 100mn	FY16	FY17	FY18	FY19
Net Sales	95	102	110	108
Net Profit	10	9	10	8
EPS, CNY	0.53	0.41	0.44	0.36
P/E, x	10.3	13.3	12.4	15.1
BVPS, CNY	2.91	2.75	2.89	2.81
P/BV, x	1.9	2.0	1.9	1.9
DPS (CNY)	0.10	0.30	0.30	0.00
Div. Yield (%)	1.8%	5.5%	5.5%	0.0%

Source: Company reports, Phillip Securities Est.

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Magnesium Alloy Business Accelerates Lightweight Arrangement

Wanfeng MLTH Holdings Co., Ltd. has seven factories in the United States, Canada, Mexico, the United Kingdom, and China, with a production output of 18 million sets. Its customers include high-end automobile brands such as Tesla, Porsche, Audi, Mercedes-Benz, BMW, Volvo, Land Rover and Toyota, as well as some customers in the industries of aviation and aerospace, transportation and 5G. In November 2020, the Company signed a cooperation agreement with T3 (FAW, Dongfeng Motor and Changan Auto) to formally develop a T3+1 cooperation mechanism. The Company is responsible for the structural design, process and mold design of large magnesium alloy castings. The T3 OEMs will provide new model platforms or mass-produced models to jointly promote the application of magnesium alloy parts. According to the planning of the Energy-saving and New Energy Vehicle Technology Roadmap, the magnesium consumption for automobiles and bicycles will reach 15 kg by 2025. There is a vast market for the applications of magnesium alloys. With the continuous advancement of technology R&D of T3+1 alliance, independent R&D and application of magnesium alloy auto parts will promote the development of magnesium alloy parts in China's auto industry, and have a positive impact on the localization and application of the Company's magnesium alloy business, the increase in market share and the Company's sustainable development.

In addition, the Company has also arranged carbon alloy (carbon brazing) technology to further accelerate the arrangement of lightweight materials in the automotive industry.

Environmentally Friendly Coating Business: Domestically Leading in Scale and High-strength Steel Stamping Parts

The Company has the environmentally friendly dacromet coating business that is domestically leading in scale. Currently, it has possessed the production and technical application capabilities of chromium-free dacromet coating processing, solution manufacturing and coating equipment production throughout the whole industry chain. This business segment has maintained a gross margin of more than 30% and a net profit margin of close to 20%.

The Company completed the M&A of Wuxi Xiongwei Precision-Machinery Sci-Tech Co., Ltd. in 2018, which mainly manufactures seat parts and body accessories. It has become the core supplier of internationally renowned manufacturers such as Faurecia, Brose, Autoliv, Magna, Yanfeng Adient, and Johnson. It also supplies seat frame products to Tesla Model Y suppliers. This business segment has a high gross margin and net profit margin of approximately 22% and 14%, respectively. In the future, with the increasing volume of Tesla products, the Company will also increase the shipments of high-strength steel stamping parts.

The Company Enters the General Aviation Sector, and Transformation and Upgrade Help Drive the Company's Second Take-off

In order to continue to promote the industry transformation and upgrading, the Company last year acquired the assets of global leading general aviation aircraft manufacturer, and formally entered the sector of general aviation aircraft manufacturing, realizing the transformation and upgrading from auto parts to complete aircraft and core components. Its subsidiary Diamond Aircraft has industry-leading advantages in R&D the engine manufacturing technology, new material technology and advanced manufacturing sector; it currently has three major aircraft design and development centers in Austria, Canada, and the Czech Republic, and a provincial engineering research center in China, as well as three major aircraft manufacturing bases in Austria, Canada and China (Xinchang County in Zhejiang Province). It is a global leader in general aircraft manufacturing, with markets covering Europe, North America, Asia-Pacific, and the Middle East. The main customers are aviation flight schools, airlines, aviation clubs and individual consumers worldwide. Recently, the Company announced successful introduction of

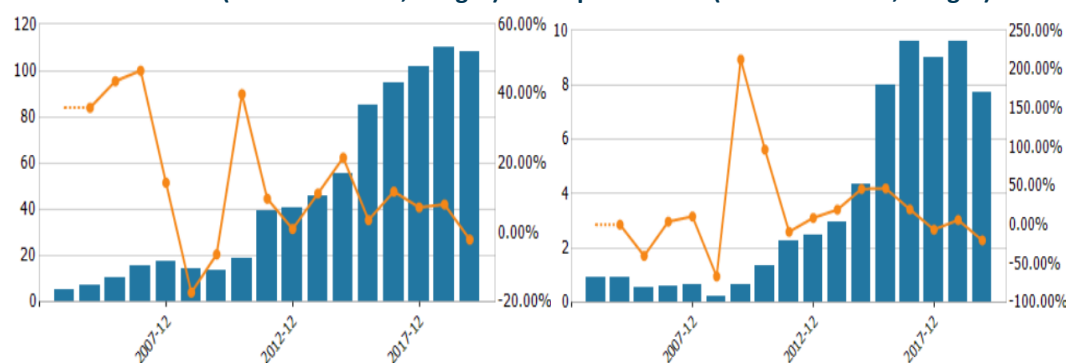
a strategic investor: Qingdao Wansheng Chengfeng Equity Investment Limited Partnership, a state-owned enterprise. It helps the Company continue to introduce supply chain industry clusters and obtain policy support from the government in the future.

The general aviation industry is an important strategic industry for the national economy and social development, which can stimulate the industrial markets of RMB1 trillion in the upstream and downstream and enhance the level of a country's industrial system. Currently, the domestic general aviation market is still in the early stage of development, with vast market space. In 2018, the general aviation aircraft in the United States totaled 210,000, which is approximately 100 times that of China. The annual flight time was 25.21 million hours, which is approximately 25 times that of China. The Company's model DA40 has the largest market share in China's elementary flight training market. Diamond Aircraft's latest model DA50 will be introduced into China for production and manufacturing, and it is expected to achieve specific breakthroughs in private and air rentals. This introduction of state-owned capital will accelerate the introduction, production and sales of other models. Due to the COVID-19 pandemic this year, the domestic flight training market will usher in an explosion of demand in the short term. It is expected that the domestic market will grow at a compound annual growth rate of 110% from 2020 to 2022. With the mass construction of China's general aviation airports and the gradual opening of the low-altitude fields, the subsequent rapid development of the private sector of general aviation is worth looking forward to. The Company, as a global leader in the general aviation aircraft manufacturing, will benefit first.

Risk

Price war among peers
Raw material price increase
New business risk

Revenue trend (RMB100mil left, % right) Net profit trend (RMB100mil left, % right)



Source: Wind, Phillip Securities Hong Kong Research

Peer Comparison

Code	Name	Market Cap	PE			PB(MRQ)
			TTM	20E	21E	
002085.SZ	Wanfeng	119	21	20	14	2
002863.SZ	Jinyue	24	37	--	--	2
002725.SZ	yueling	17	341	--	--	2
002182.SZ	Yunhai	71	13	27	19	3
300428.SZ	Sitong	67	17	--	--	2
000768.SZ	Avic	877	129	112	92	5

Source: Wind, Phillip Securities Hong Kong Research

PE BAND



Source: Wind, Phillip Securities Hong Kong Research

Financials

FYE DEC	FY15	FY16	FY17	FY18	FY19
Valuation Ratios					
P/E (X), adj.	5.8	10.3	13.3	12.4	15.1
P/B (X)	1.2	1.9	2.0	1.9	1.9
Dividend payout ratio(%)	5.4%	18.9%	73.2%	68.2%	0.0%
Dividend Yield (%)	0.9%	1.8%	5.5%	5.5%	0.0%
Per share data (RMB)					
EPS, (Basic)	0.93	0.53	0.41	0.44	0.36
EPS, (Diluted)	0.93	0.53	0.41	0.44	0.36
DPS	0.05	0.10	0.30	0.30	0.00
BVPS	4.50	2.91	2.75	2.89	2.81
Growth & Margins (%)					
Growth					
Revenue	53.2%	11.9%	7.3%	8.1%	-2.0%
EBIT	82.0%	15.8%	-3.2%	-4.1%	-15.1%
Net Income, adj.	83.5%	20.1%	-5.9%	6.4%	-19.8%
Margins					
Gross margin	23.6%	23.2%	19.6%	20.3%	19.6%
EBIT margin	13.5%	14.0%	12.6%	11.2%	9.7%
Net Profit Margin	9.4%	10.1%	8.9%	8.7%	7.1%
Key Ratios					
ROE	19.5%	14.3%	14.5%	15.6%	12.6%
ROA	8.2%	7.2%	8.5%	8.2%	5.8%
Income Statement (RMB 100mn)					
Revenue	85	95	102	110	108
Gross profit	20	22	20	22	21
EBIT	11	13	13	12	10
Profit before tax	11	13	12	13	10
Tax	2	3	2	3	2
Profit for the period	9	11	10	10	8
Minority interests	1	1	1	0	0
Total capital share	911	1,822	2,187	2,187	2,187
Net profit	8.0	9.6	9.0	9.6	7.7

Source: PSR

PHILLIP RESEARCH STOCK SELECTION SYSTEMS

Total Return	Recommendation	Rating	Remarks
>+20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20% upside from the current price
-5% to +5%	Neutral	3	Trade within $\pm 5\%$ from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20% downside from the current price

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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