

Sector: Auto Parts

Zhejiang Wanfeng Auto Wheel (002085)

Performance Rating

A	Profitability & Growth
A	Use of Capital
A	Valuation
A	Stock Liquidity
A	Institutional Holdings

Buy

Singapore

Catherine Yap, Global Distribution
catherine_yap@chinaknowledge.com
Tel: (65) 6743 1728

Hong Kong

Christina Wang
Managing Director, Research Department
christina_wang@chinaknowledge.com

Shanghai

Charles Chaw, Managing Director
charles@chinaknowledge.com
Tel: (86) 21 8033 6883

Shenzhen

Becky Guo
Marketing Director
becky_guo@chinaknowledge.com

Guangzhou

Michael Lee
Marketing Director
michael_lee@chinaknowledge.com

Investment Highlights

On Apr 30, Wanfeng Auto Wheel released its 2020 annual report and 2021 Q1 financial results. The company achieved a total revenue of RMB 10.69 bln in 2020, and the net profit attributable to shareholders of listed company reported RMB 566 mln. In 2021 Q1, its revenue reached RMB 2.76 bln, and the net profit attributable to shareholders of listed company recorded RMB 168 mln, with a YoY increase of 61.43% prior to retrospective adjustment and 37.24% post retrospective adjustment.

Wanfeng Auto Wheel has established the "dual engine" growth strategy. During Q1 this year, automotive metal lightweight parts business realized significant recovery growth while continuing to expand in the new energy vehicles field. On the other hand, with the gradual maturity of the profit model for its general aviation business, the company has made remarkable progress in the overseas private use market and domestic flight training market. Therefore, the company was on track of a high-growth performance as seen in Q1 this year.

- **Wanfeng Aircraft Industry exceeded its performance commitment, its new business model is a testament of domestic market potential**

Last year the company successfully acquired 55% equity of Wanfeng Aircraft Industry, entering the general aviation sector with tremendous growth prospect. The company thereby owns 'Diamond Aircraft', which is one of the world's top three general aviation aircraft brands, its complete IP and supply chain capabilities including R&D, production, and sales. According to Wanfeng's annual report, the net profit of the aircraft manufacturing business deducting non-recurring gains and losses reached RMB 330 mln, this has significantly exceeded the previous performance commitment of RMB 289 mln.

In 2020, Wanfeng Aircraft Industry achieved up-scaling of mass production and sales of domestic training aircraft. In addition, it is also the main supplier of flight-training aircraft for well-known aviation schools in China, and has fully logged in orders for entire 2021, accounting for nearly 70% of the domestic market.

Underpinning the general aviation business is a circular progressive profit model, i.e. "technological leadership – licensing – whole aircraft manufacturing & sales". To continuously serve its top customers, a high level of R&D investment in general aviation and developing proprietary technology is key to stay competitive. Notably, it has a clear roadmap for future technology development, including EVTOL electric vertical take-off and landing application scenarios, and constantly introduces new models.

In addition, it is also adopting the 'licensing model' to monetize on its IP and technical know-how, accelerate the construction of global production network and pivot itself in the entire aviation ecosystem. Aircraft manufacturing & sales will eventually benefit from this profit model, gaining an edge over its competitors in overseas mature market and exploring numerous applications in emerging markets. This will enhance its marketability as a full-fledged aviation operator.

At present, Wanfeng owns IP for 4 series, 8 basic types, 16 basic models of aircraft as well as multiple aero engines and flight simulators. The wider range of product offerings than its two main competitors (Cessna and Cirrus) and high output will continue to provide higher profit growth. Its new DA50 model has won the most innovative award in Europe when it was first unveiled, and it has since received strong orders. In 2020, the global sales ranking of Diamond Aircraft has risen from fourth placing before Wanfeng's acquisition to rank second in the world.

- **Favorable policies create huge market opportunities, huge potential on profits**

In Feb this year, the outline of 'National Comprehensive Three-dimensional Transport Network Plan' proposed that, by 2035, China will achieve full-scale international and domestic connectivity, to coverage of county-level transport nodes. Just last month, the Central Air Traffic Management Committee made its debut statement announcing the high importance that China will develop the country's aviation sector.

The core of these policies clearly stated the "one-hour air traffic circle" in most provinces where a series of general navigation application scenarios will be deployed such as short distance transportation and air taxi. This presents enormous opportunities for the air transport that will directly benefit Wanfeng's strategy of establishing an ecosystem on general aviation.

- **New energy vehicle (NEV) demand surge, lightweight auto parts is expected to benefit for a long period**

Increasingly, strict environmental protection and energy consumption policies will boost the demand for lightweight auto parts by automakers. In Oct 2020, the China Ministry of Industry and Information Technology released a "Technology Roadmap 2.0 for Energy-saving and New Energy Vehicle" which further confirmed the direction of global auto industry of "zero-carbon emission"; hence, this will fast-forward China's automobile industry. The new roadmap stated that, by 2035, new energy vehicles will become the mainstream product.

With more than 20 years accumulation of lightweight technology, Wanfeng Auto Wheel has become a very competitive global provider of lightweight solutions (magnesium alloy, aluminum alloy and high-durable steel) for auto parts. It is now a supplier of these superior products to Tesla (TSLA), NIO (NIO), Xpeng (XPEV) and BYD (002594), and has cooperation for new product design with other emerging NEV brands such as China Evergrande New Energy Vehicle Group (0708).

Disclosure Appendix

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