

Intron Tech (1760 HK)

1H23 results below; expect back-loaded in 2H23E

Intron Tech's 1H23 revenue of RMB 2.63bn (+26.5% YoY) was slightly below our expectation, while attributable net income of RMB 154mn (+1.2% YoY) was 19% below our estimate mainly due to weaker cloud server segment, weaker gross margin and significant increase in R&D expense. Mgmt. attributed higher R&D expense to talent recruitment and software/equipment acquisitions, and expected gradually normalized R&D spending towards 2H23/FY24E. Overall, we are positive on 2H23E earnings recovery driven by traditional peak season, normalised R&D spending and new product shipment. We trimmed FY23-25E EPS by 9-17% to factor in 1H23 results and lower margins. Trading at 6.3x/5.1x FY23/24E P/E, we think risk-reward is attractive compared with A/H share peers. Maintain BUY with new TP of HK\$ 6.37. Upcoming catalysts include rising ADAS penetration and NEV client share gain.

- 1H23 higher R&D expense offsetting strong NEV growth.** By segment, new energy/body control/safety/powertrain/automation & connectivity/cloud server revenue delivered +58%/-3.2%/+43%/+41%/+118%/-71% YoY growth. Intron reported solid new energy segment growth despite industry headwinds, driven by increasing client penetration and share gain on new projects. Cloud server weakness was due to shrinking demand from key customers and server market destocking. 1H23 net income of RMB 154mn (+1.2% YoY) missed our estimate by 19%, mainly due to significant increase in R&D expense ratio to 8.9% (vs. 7.0% in 1H22). Mgmt. stated higher R&D expense was due to talent acquisition and software/testing equipment purchase, and expected gradual normalizing of R&D expense in 2H23E. 1H23 GPM of 20.6% (vs. 21.6% in 1H22) was attributed to FX impact and price pressure from OEM customers. Mgmt. expected margin expansion upside from cost reduction and upstream price negotiation in 2H23E.
- 2H23E Outlook: back-loaded revenue in 2H23E with margin recovery.** We expect Intron's topline to be back-loaded in 2H23E driven by traditional seasonality and new product ramp-up, and we expect moderate impact from downstream auto OEM price competition and de-spec trend. We think the hike in R&D expense in 1H23 will gradually normalize in 2H23E. Overall, we estimate revenue/net profit growth of 33%/35% YoY in 2H23E.
- Attractive risk/reward, reiterate BUY.** We trimmed FY23-25E EPS by 9-17% mainly to reflect higher R&D expenses and weaker 1H23 earnings. Our new TP of HK\$6.37 is based on same 12x FY23E P/E (24% below 5-year hist. avg.). Trading at 6.3x/5.1x FY23/24E P/E, we think risk-reward is attractive especially compared with A/H share peers.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	3,176	4,830	6,299	8,160	10,273
YoY growth (%)	59.4	52.1	30.4	29.6	25.9
Net profit (RMB mn)	200.6	415.0	507.4	635.1	813.2
YoY growth (%)	111.6	106.9	22.3	25.2	28.1
EPS (Reported) (RMB)	0.19	0.38	0.47	0.58	0.75
Consensus EPS (RMB)	na	na	0.55	0.69	0.81
P/E (x)	22.7	10.2	6.3	5.1	3.9
P/B (x)	2.6	2.0	1.2	1.0	0.8
Yield (%)	1.6	3.4	0.0	0.0	0.0
ROE (%)	13.2	21.3	21.1	21.3	21.9

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **HK\$6.37**
(Previous TP **HK\$7.01**)
Up/Downside **100.4%**
Current Price **HK\$3.18**

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Stock Data

Mkt Cap (HK\$ mn)	3,452.4
Avg 3 mths t/o (HK\$ mn)	5.7
52w High/Low (HK\$)	6.06/3.18
Total Issued Shares (mn)	1085.7

Source: FactSet

Shareholding Structure

Magnate Era Ltd	48.3%
Luk Wing Ming	6.9%

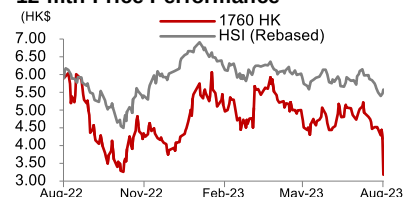
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-32.8%	-31.1%
3-mth	-32.5%	-29.1%
6-mth	-35.9%	-29.6%

Source: FactSet

12-mth Price Performance



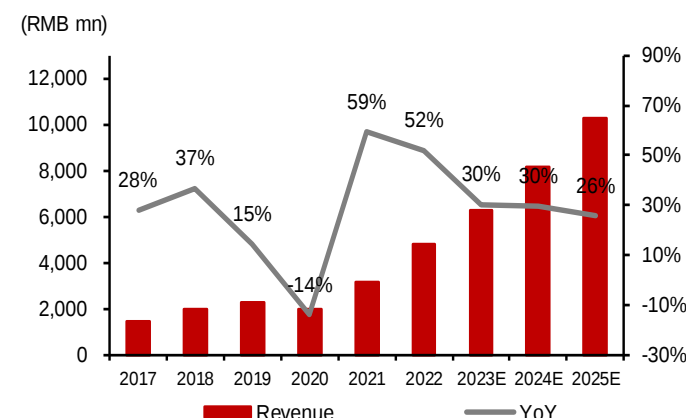
Source: FactSet

Related reports:

- Intron Tech (1760 HK) – 1H23E Preview: strong growth despite industry headwinds; expect back-loaded in 2H23E ([link](#))
- Intron Tech (1760 HK) – NDR takeaways: Strong order backlog in 2H23E; Solid pipeline to drive growth into FY24/25E ([link](#))
- Intron Tech (1760 HK) – Beneficiary of automotive megatrends in electrification and intelligence ([link](#))

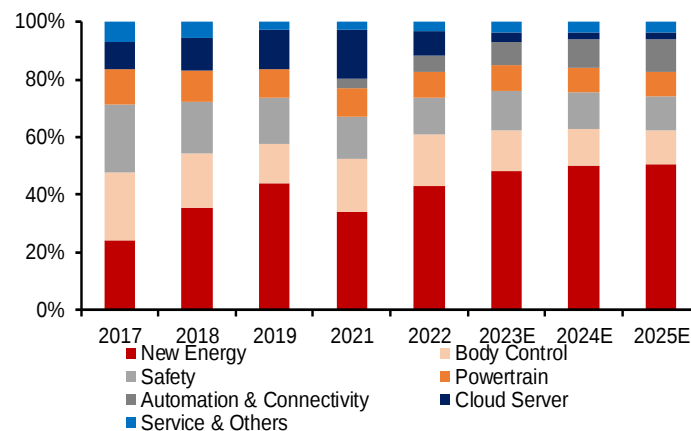
Focus Charts

Figure 1: Intron's revenue forecast



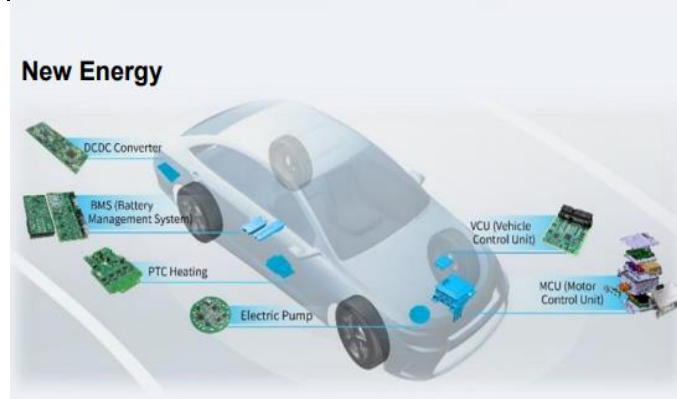
Source: Company data, CMBIGM estimates

Figure 2: Intron's revenue breakdown



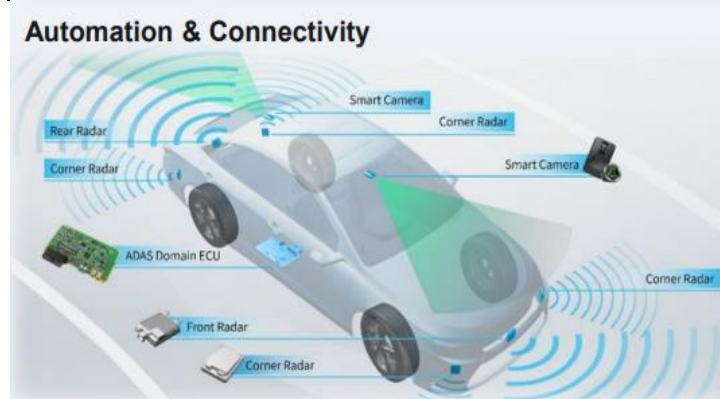
Source: Company data, CMBIGM estimates

Figure 3: Intron's new energy vehicle solutions



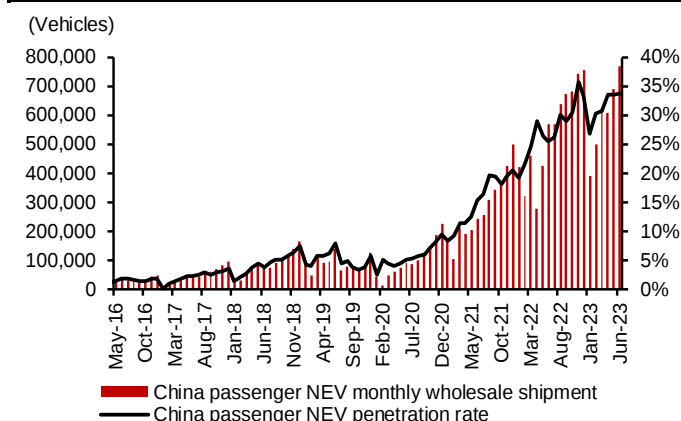
Source: Company data, CMBIGM estimates

Figure 4: Intron's intelligent vehicle solutions



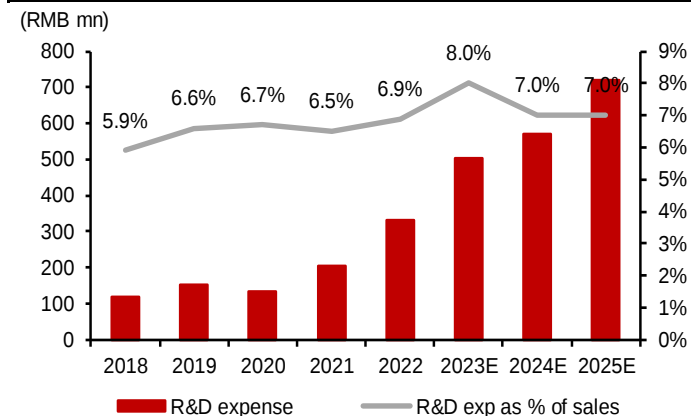
Source: Company data, CMBIGM estimates

Figure 5: China NEV monthly wholesale shipment



Source: CAAM, CMBIGM estimates

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 (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	6,299	8,160	10,273	6,883	9,181	11,438	-8%	-11%	-10%
Gross profit	1,301	1,681	2,106	1,437	1,889	2,313	-9%	-11%	-9%
Net profit	507	635	813	593	751	886	-14%	-15%	-8%
EPS (RMB)	0.46	0.58	0.74	0.55	0.69	0.81	-15%	-16%	-9%
Gross margin	20.7%	20.6%	20.5%	20.9%	20.6%	20.2%	-0.2 ppt	0 ppt	0.3 ppt
Net Margin	8.1%	7.8%	7.9%	8.6%	8.2%	7.7%	-0.6 ppt	-0.4 ppt	0.2 ppt

Source: Bloomberg, CMBIGM estimates

Figure 8: Earnings Revision

RMB mn	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	6,299	8,160	10,273	6,647	8,801	11,101	-5%	-7%	-7%
Gross profit	1,301	1,681	2,106	1,396	1,838	2,285	-7%	-9%	-8%
Net profit	507	635	813	558	766	959	-9%	-17%	-15%
EPS (RMB)	0.46	0.58	0.74	0.51	0.70	0.87	-9%	-17%	-15%
Gross margin	20.7%	20.6%	20.5%	21.0%	20.9%	20.6%	-0.3 ppt	-0.3 ppt	-0.1 ppt
Net Margin	8.1%	7.8%	7.9%	8.4%	8.7%	8.6%	-0.3 ppt	-0.9 ppt	-0.7 ppt

Source: CMBIGM estimates

Figure 9: Revenue breakdown by segment

RMB mn	2021	2022	1H23A	2H23E	2023E	2024E	2025E
New Energy	1,082	2,067	1,253	1,784	3,037	4,099	5,175
... YoY	131.6%	91.0%	58.1%	40.0%	46.9%	35.0%	26.2%
Body Control	579	868	417	481	898	1,033	1,215
... YoY	37.1%	50.0%	-3.2%	10.0%	3.5%	15.0%	17.7%
Safety	476*	636*	390	454	844	1,025	1,230
... YoY	-2.9%	33.5%	43.1%	25.0%	32.8%	21.4%	20.0%
Powertrain	309	432	219	360	579	712	855
... YoY	26.6%	39.9%	41.0%	30.0%	33.9%	23.1%	20.0%
Automation & Connectivity	101*	255*	203	315	518	783	1,175
... YoY	-	151.3%	117.7%	95.0%	103.3%	51.2%	50.0%
Cloud Server	550	420	87	107	194	213	245
... YoY	81.5%	-23.5%	-71.1%	-10.0%	-53.9%	10.0%	15.0%
Service & Others	79	152	57	172	229	294	378
... YoY	19.1%	91.8%	95.4%	40.0%	50.6%	28.5%	28.5%
Revenue	3,176	4,830	2,626	3,672	6,299	8,160	10,273
... YoY	59.4%	52.1%	26.5%	33.3%	30.4%	29.6%	25.9%

Source: Company, CMBIGM estimates, * in FY22, Automation & Connectivity is separated from Safety segment

Figure 10: P&L forecast

RMB mn	2021	2022	1H23A	2H23E	2023E	2024E	2025E
Revenue	3,176	4,830	2,626	3,672	6,299	8,160	10,273
...YoY	59.4%	52.1%	26.5%	33.3%	30.4%	29.6%	25.9%
Cost of sales	-2,551	-3,789	-2,085	-2,912	-4,997	-6,479	-8,167
Gross profit	625	1,041	541	760	1,301	1,681	2,106
GPM (%)	19.7%	21.5%	20.6%	20.7%	20.7%	20.6%	20.5%
...YoY	74.5%	66.4%	20.8%	28.2%	25.0%	29.2%	25.3%
S&M	(101)	(106)	(53)	(73)	(127)	(163)	(205)
...% of rev	-3.2%	-2.2%	-2.0%	-2.0%	-2.0%	-2.0%	-2.0%
R&D	(206)	(332)	(233)	(272)	(505)	(571)	(719)
...% of rev	-6.5%	-6.9%	-8.9%	-7.4%	-8.0%	-7.0%	-7.0%
Admin	(107)	(95)	(42)	(48)	(89)	(131)	(164)
...% of rev	-3.4%	-2.0%	-1.6%	-1.3%	-1.4%	-1.6%	-1.6%
Pre-tax profit	217	455	145	342	487	717	918
Pre-tax profit margin (%)	6.8%	9.4%	5.5%	9.3%	7.7%	8.8%	8.9%
...YoY	120.9%	109.9%	-13.4%	19.1%	7.1%	47.0%	28.1%
Net profit	201	415	154	353	507	635	813
NPM (%)	6.3%	8.6%	5.8%	9.6%	8.1%	7.8%	7.9%
...YoY	111.6%	106.9%	1.2%	34.5%	22.3%	25.2%	28.1%

Source: Company data, CMBIGM estimates

Valuation

Maintain BUY with new TP of HK\$6.37.

Our new TP of HK\$6.37 is based on same 12x FY23E P/E. We use price/earnings as our valuation methodology since we believe it better captures Intron's earnings growth potential. We view our target multiple of 12x P/E as reasonable and justified by 25% earnings CAGR over 2022-25E and 36%/66% sales CAGR in New Energy and Automation & Connectivity segments.

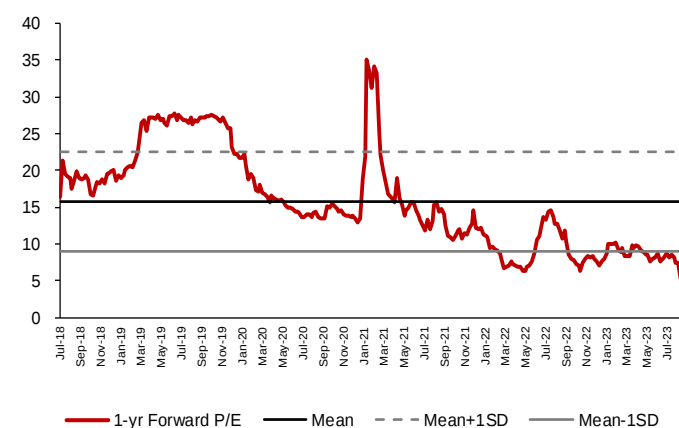
Intron now trades at 6.3x/5.1x FY23/24E P/E, vs 27.5x/20.0x FY23/24E P/E for A/H-listed automobile components/solutions peers. We think Intron is highly undervalued, especially considering its high ROE level. Upcoming catalysts include potential favourable NEV policy, rising ADAS/AD penetration, share gain in NEV customers and product launches.

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 (%)	
							FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Intron Tech	1760 HK	BUY	441	3.18	6.4	100%	6.3	5.1	1.2	1.0	21.1	21.3
BOE Varitronix	710 HK	BUY	754	7.47	23.7	217%	7.9	6.1	0.6	0.5	7.9	8.4
BYD Electronics	285 HK	BUY	9,452	32.90	31.7	-4%	20.1	16.4	2.3	2.1	11.7	12.8
Sunny Optical	2382 HK	HOLD	8,825	63.10	78.3	24%	34.3	21.8	2.6	2.4	7.5	10.8
Luxshare	002475 CH	BUY	30,813	31.45	48.0	53%	20.8	16.9	2.2	1.9	10.5	11.4
Desay SV	002920 CH	NR	10,762	141.11	NA	NA	52.4	37.7	10.2	8.4	20.1	23.1
Foryou Corp	002906 CH	NR	2,093	29.09	NA	NA	30.7	22.7	2.9	2.6	9.9	12.1
Joyson	600699 CH	NR	3,518	18.18	NA	NA	26.0	18.4	1.9	1.8	7.5	9.7
Jingwei Hirain	688326 CH	NR	2,092	126.89	NA	NA	49.2	34.9	2.7	2.5	5.6	8.2
Average							27.5	20.0	3.0	2.6	11.1	12.8

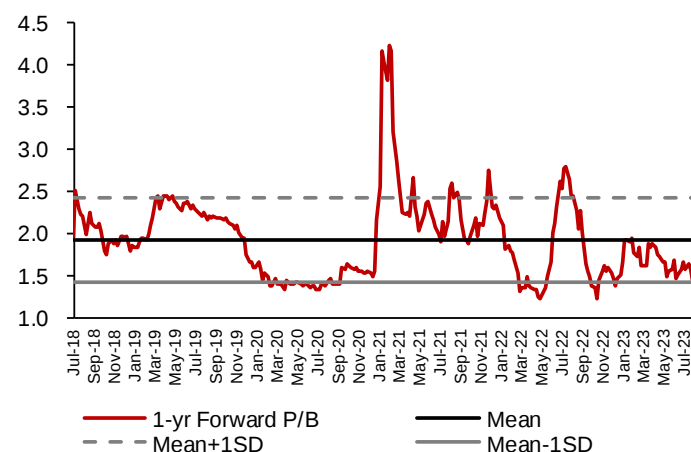
Source: Bloomberg, CMBIGM estimates

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	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	1,993	3,176	4,830	6,299	8,160	10,273
Cost of goods sold	(1,635)	(2,551)	(3,789)	(4,997)	(6,479)	(8,167)
Gross profit	358	625	1,041	1,301	1,681	2,106
Selling expense	(68)	(101)	(106)	(127)	(163)	(205)
Admin expense	(218)	(313)	(427)	(594)	(702)	(884)
Other income	49	30	40	36	36	36
Other expense	(2)	(2)	(50)	(62)	(62)	(62)
Share of (losses)/profits of associates/JV	(1)	1	2	2	2	2
Net Interest income/(expense)	(20)	(24)	(45)	(76)	(76)	(76)
Pre-tax profit	98	217	455	481	717	918
Income tax	(3)	(17)	(44)	23	(72)	(92)
After tax profit	95	200	411	504	645	826
Minority interest	0	(0)	(4)	(8)	(10)	(13)
Net profit	95	201	415	507	635	813
Gross dividends	28	60	126	0	0	0

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	1,695	2,294	3,351	3,915	4,667	5,584
Cash & equivalents	388	572	337	970	610	1,073
Account receivables	783	1,163	1,698	1,801	2,383	2,753
Inventories	447	498	1,086	913	1,443	1,527
Prepayment	40	27	182	182	182	182
ST bank deposits	36	32	49	49	49	49
Financial assets at FVTPL	0	0	0	0	0	0
Other current assets	0	0	0	0	0	0
Contract assets	1	1	0	0	0	0
Non-current assets	360	565	724	757	786	812
PP&E	154	170	195	217	236	247
Right-of-use assets	23	33	33	40	45	55
Deferred income tax	24	42	54	54	54	54
Intangibles	126	224	325	329	334	339
Financial assets at FVTPL	15	76	85	85	85	85
Other non-current assets	18	20	32	32	32	32
Total assets	2,054	2,859	4,075	4,672	5,452	6,396
Current liabilities	747	1,097	1,907	1,993	2,129	2,246
Short-term borrowings	433	632	950	950	950	950
Account payables	74	237	331	417	552	670
Tax payable	6	18	27	27	27	27
Other current liabilities	0	1	1	1	1	1
Lease liabilities	12	15	20	20	20	20
Accrued expenses	221	194	578	578	578	578
Non-current liabilities	16	19	20	20	20	20
Long-term borrowings	0	0	0	0	0	0
Other non-current liabilities	16	19	20	20	20	20
Share capital	9	9	9	9	9	9
Other reserves	1,283	1,733	2,129	2,639	3,284	4,110
Total shareholders equity	1,292	1,743	2,149	2,659	3,304	4,130
Minority interest	0	1	11	11	11	11
Total equity and liabilities	2,054	2,859	4,075	4,672	5,452	6,396

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	98	217	455	487	717	918
Depreciation & amortization	49	60	90	109	118	125
Tax paid	(21)	(22)	(35)	23	(72)	(92)
Change in working capital	2	(285)	(643)	155	(976)	(337)
Others	6	16	0	0	0	0
Net cash from operations	134	(15)	(134)	775	(213)	614
Investing						
Capital expenditure	(137)	(159)	(216)	(142)	(147)	(151)
Acquisition of subsidiaries/ investments	0	0	0	0	0	0
Net proceeds from disposal of short-term investments	1	0	0	0	0	0
Others	(20)	(64)	0	0	0	0
Net cash from investing	(156)	(222)	(216)	(142)	(147)	(151)
Financing						
Dividend paid	(36)	(29)	(126)	0	0	0
Net borrowings	(0)	208	0	0	0	0
Proceeds from share issues	0	253	0	0	0	0
Others	(18)	(4)	0	0	0	0
Net cash from financing	(54)	428	(126)	0	0	0
Net change in cash						
Cash at the beginning of the year	497	388	572	337	970	610
Exchange difference	(33)	(8)	0	0	0	0
Cash at the end of the year	388	572	337	970	610	1,073

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

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