

EVA Holdings (838 HK)

Poised for higher growth in 2H22

We hosted a conference call with EVA's management for investors on 19 Jul 2022. We see higher growth potential in 2H22, after its positive profit alert of 33-50% YoY growth in 1H22 announced on 18 Jul 2022. We maintain our BUY rating and target price of HK\$ 3.00.

- **Higher ASP for Tesla front seats to offset slight volume miss.** Although Tesla's production volume in North America increases by about 10% MoM according to management, its full-year production volume could still be lower than originally anticipated, capped by battery capacity. However, EVA has secured two more seat related components from Tesla, which could lift its content per vehicle by HK\$ 30 (from HK\$ 190 to HK\$ 220), or HK\$ 20-30mn of revenue contribution in FY22E, offsetting the potential production volume miss.
- **High revenue growth for OA in FY22-23E and better earnings quality in FY23E.** Management expects office automation (OA) revenue to rise 20% YoY in FY22E, contributed by its Weihai and Vietnam plants (about half each). Management also expects OA revenue to rise another 20% YoY in FY23E, mainly from its Weihai plant with more self-made components for the OA assembly business, which could widen the margins.
- **New businesses may start to bear fruit from 2H22.** EVA has been exploring new businesses, especially in those high-growth sectors (such as new-energy vehicle, solar, energy storage and data server), by leveraging its expertise in mould. We expect EVA to secure orders from a few new clients in 2H22 and generate significant revenue from FY23E.
- **Valuation/Key risks.** We are of the view that EVA's 1H22 net profit, based on its positive profit alert (HK\$ 90-102mn), should be dragged by COVID-19 and some non-operating items. We maintain our earnings forecasts for FY22-24E, based on the new information listed above.

We use sum-of-the-parts (SOTP) valuation for EVA, as we value HK\$ 2.34 per share for its auto components business, based on 20x of our FY22E P/E; and HK\$ 0.66 per share for its office automation equipment, based on 8.5x of our FY22E P/E. Key risks to our rating and target price include lower sales or margins, and more severe production disruption than we expect.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (HK\$ mn)	4,008	5,109	6,353	8,238	9,777
YoY growth (%)	7.0	27.4	24.4	29.7	18.7
Net income (HK\$ mn)	(15)	155	340	545	787
EPS (HK\$)	(0.01)	0.09	0.19	0.30	0.43
YoY growth (%)	N/A	N/A	119.0	60.4	44.4
P/E (x)	N/A	14.7	6.8	4.2	3.1
P/B (x)	0.9	0.8	0.7	0.6	0.5
Yield (%)	0.0	2.0	4.4	6.9	9.8
ROE (%)	(0.6)	5.7	11.5	16.3	20.2
Net gearing (%)	14.1	17.5	5.9	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$ 3.00
(Previous TP	HK\$ 3.00)
Up/Downside	+81.8%
Current Price	HK\$ 1.65

China Auto Sector

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Stock Data

Mkt Cap (HK\$ mn)	2,886
Avg 3 mths t/o (HK\$ mn)	22
52w High/Low (HK\$)	2.58/0.66
Total Issued Shares (mn)	1,749
Source: Bloomberg	

Shareholding Structure

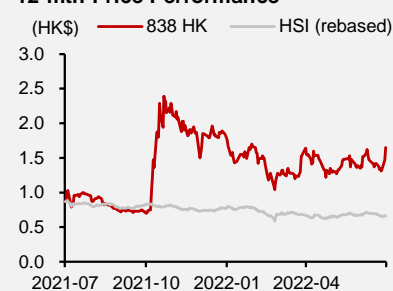
Zhang Hwo Jie's Family	44.3%
Others	55.7%
Source: HKEx	

Share Performance

	Absolute	Relative
1-mth	22.2%	24.6%
3-mth	7.1%	7.2%
6-mth	-7.8%	6.5%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PricewaterhouseCoopers

Financial Summary

Income statement

YE 31 Dec (HK\$ mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	4,008	5,109	6,353	8,238	9,777
Cost of sales	(3,270)	(4,096)	(4,930)	(6,364)	(7,461)
Gross profit	738	1,013	1,423	1,874	2,316
Selling exp.	(237)	(315)	(395)	(501)	(603)
Admin exp.	(463)	(506)	(618)	(737)	(812)
Other income	38	32	40	60	80
Other gains / (losses), net	(8)	(5)	3	(8)	(15)
Impairment loss	(34)	(24)	(32)	(32)	(34)
Operating profit	35	195	421	657	932
Net finance costs	(32)	(15)	(20)	(17)	(6)
Share of profit of JV & asso	(16)	0	(2)	1	1
Pre-tax profit	(13)	180	400	641	926
Tax	(2)	(25)	(60)	(96)	(139)
Minority interests	-	-	-	-	-
Net profit	(15)	155	340	545	787

Cash flow summary

YE 31 Dec (HK\$ mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Profit before taxation	(13)	180	400	641	926
Depreciation/amortization	235	276	321	374	403
Change in working capital	194	(213)	(125)	(44)	(131)
Others	37	17	41	(19)	(77)
Net cash from operating	453	259	637	953	1,121
Capex	(243)	(376)	(200)	(250)	(300)
Others	189	39	(52)	(34)	(20)
Net cash from investing	(54)	(337)	(252)	(284)	(320)
Net borrowings	(11)	6	(489)	(430)	(496)
Dividend paid	(50)	(21)	(67)	(127)	(193)
Others	(23)	(3)	(13)	(20)	(15)
Net cash from financing	(84)	(18)	(569)	(576)	(704)
Net change in cash	315	(96)	(183)	93	98
Cash at beginning of the year	1,071	1,406	1,318	1,135	1,228
FX effect	20	9	-	-	-
Cash at the end of the year	1,406	1,318	1,135	1,228	1,326

Balance sheet

YE 31 Dec (HK\$ mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Current assets	3,271	3,642	3,891	4,571	5,175
Cash & equivalents	1,406	1,318	1,135	1,228	1,326
Account receivables	1,028	1,382	1,654	2,031	2,411
Inventories	541	688	810	976	1,063
Other current assets	295	253	292	335	375
Non-current assets	2,831	2,932	2,866	2,771	2,674
PP&E	2,281	2,418	2,357	2,289	2,226
Right-of-use assets	373	384	376	353	316
Investments in associates	33	35	33	34	35
Other non-current assets	144	95	100	95	97
Total assets	6,101	6,574	6,757	7,342	7,849
Current liabilities	2,774	3,226	3,137	3,133	3,181
Bank borrowings	1,277	1,448	1,034	476	145
Payables	1,159	1,373	1,621	2,092	2,453
Contract liabilities	82	68	83	99	98
Other current liabilities	257	338	400	466	486
Non-current liabilities	718	559	505	634	453
Bank borrowings	625	460	410	560	410
Deferred income	20	21	21	21	21
Other non-current liabilities	73	78	74	53	22
Total liabilities	3,492	3,785	3,642	3,767	3,634
Share capital	172	175	178	181	184
Reserves	2,438	2,614	2,936	3,394	4,030
Minority interests	-	-	-	-	-
Shareholders' equity	2,610	2,788	3,114	3,575	4,214
Total equity and liabilities	6,101	6,574	6,757	7,342	7,849

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
Sales of auto components	22.8	26.7	32.2	37.3	44.0
Sales of OA equipment	77.2	73.3	67.8	62.7	56.0
Growth (%)					
Revenue	7.0	27.4	24.4	29.7	18.7
Gross profit	(3.5)	37.2	40.5	31.7	23.5
Operating profit	(71.1)	461.5	116.5	56.0	41.8
Net profit	N/A	N/A	119.0	60.4	44.4
Profit & loss ratio (%)					
Gross margin	18.4	19.8	22.4	22.8	23.7
Operating margin	0.9	3.8	6.6	8.0	9.5
Net profit margin	(0.4)	3.0	5.3	6.6	8.1
Balance sheet ratio					
Net cash (debt)/total equity (x)	(0.1)	(0.2)	(0.1)	0.1	0.2
Current ratio (x)	1.2	1.1	1.2	1.5	1.6
Receivable turnover days	94	99	95	90	90
Inventory turnover days	60	61	60	56	52
Payable turnover days	129	122	120	120	120
Profitability (%)					
ROE	(0.6)	5.7	11.5	16.3	20.2
ROA	(0.3)	2.4	5.1	7.7	10.4
Per share data (HK\$)					
EPS	(0.01)	0.09	0.19	0.30	0.43
DPS	0.00	0.03	0.06	0.09	0.13

Source: Company data, CMBIGM estimates

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