

EVA Holdings (838 HK)

Better 2H23 and FY24 as Mexico to turn profitable

EVA's 1H23 earnings beat our prior forecast despite lower revenue and GPM, due to higher other income and one-off gains. We expect its Mexico plant to turn profitable in 2H23E, after meeting with management. We expect EVA's FY24E net profit to rise 20% YoY, mainly contributed by its Mexico plant and lower interest expense. Its office automation (OA) equipment business remains resilient during the downturn.

- 1H23 earnings slightly beat on other income and gains.** EVA's 1H23 revenue and gross margin were both below our prior expectation, dragged by Great Wall Motor (2333 HK/601633 CH, BUY), SAIC-GM-Wuling and inventory clearance for Lucid (LCID US, NR) and OA equipment. Its cost reduction efforts resulted in a 1 ppt YoY cut for SG&A ratio in 1H23, despite lower revenue. Its other income tripled YoY in 1H23, due to higher government grants and rental income. EVA also benefited from a one-off gain of reversed provision at previously acquired Futaba Metal Shenzhen (HK\$ 14mn) and forex gain (HK\$ 28mn).
- We expect Mexico plant to turn profitable in 2H23.** EVA has re-negotiated with Faurecia and raised price by 5-6% in Mexico from 2023 for five years. We estimate such price hike could lift EVA's auto parts GPM by more than 1 ppt, as Faurecia (including the Tesla *Model Y*'s backseat frame) accounts for 60% of EVA's Mexico revenue and Mexico accounts for 37% of EVA's auto parts revenue (and is still rising). In addition, such 'subsidiaries' of about HK\$ 10mn for 1H23 will be booked in 2H23, as the negotiation was completed in 2H23. Therefore, we expect EVA's auto parts GPM to widen to 22% in 2H23E and its Mexico plant to turn profitable in 2H23E.
- New Tesla orders of about HK\$ 120mn per annum from FY25E onwards.** Tesla's (TSLA US, NR) front seat frame contributed about HK\$ 60-70mn to EVA's revenue in 1H23, as Tesla's Austin plant's production ramp-up was slower-than-expected. The company targets a revenue of HK\$ 150mn (7mn units) from Tesla (as a tier-1 supplier) in FY23E, in line with our forecast for Tesla's North America production. We expect Tesla to contribute about HK\$ 240mn to EVA's revenue in FY24E, as the Austin Gigafactory ramps up, and HK\$ 380mn in FY25E, as EVA has just secured a new seat frame welding component which could bring about HK\$ 120mn per annum from FY25E for five years.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (HK\$ mn)	5,109	6,268	6,770	7,637	8,355
YoY growth (%)	27.4	22.7	8.0	12.8	9.4
Net income (HK\$ mn)	155	206	246	296	352
EPS (HK\$)	0.09	0.12	0.14	0.16	0.19
YoY growth (%)	N/A	32.8	19.5	20.1	19.0
P/E (x)	7.6	5.8	4.8	4.1	3.5
P/B (x)	0.4	0.4	0.4	0.4	0.3
Yield (%)	4.0	5.2	6.2	7.8	9.6
ROE (%)	5.7	7.3	8.4	9.3	10.1
Net gearing (%)	17.5	20.9	19.9	9	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$ 1.50
(Previous TP)	HK\$ 1.50)
Up/Downside	+120.6%
Current Price	HK\$ 0.68

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Stock Data

Mkt Cap (HK\$ mn)	1,184
Avg 3 mths t/o (HK\$ mn)	2
52w High/Low (HK\$)	1.62/0.67
Total Issued Shares (mn)	1,741

Source: Bloomberg

Shareholding Structure

Zhang Hwo Jie's Family	44.3%
Others	55.7%

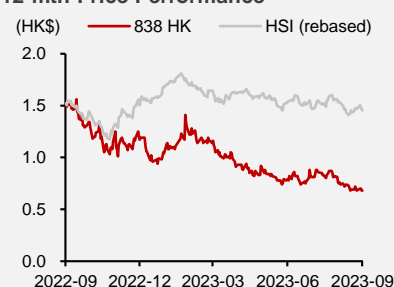
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-16.0%	-9.2%
3-mth	-13.9%	-8.5%
6-mth	-41.4%	-30.0%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PricewaterhouseCoopers

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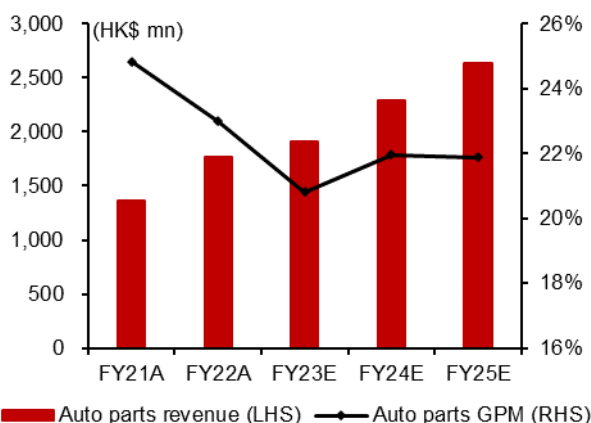
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- **We project FY24E auto parts revenue to rise 20% YoY.** We lower our FY23E revenue for auto parts from HK\$ 2.1bn to HK\$ 1.9bn, as 1H23 revenue (HK\$ 0.86bn) was dragged down by fewer-than-expected internal combustion engine (ICE) car production in China. Production at Great Wall’s Jingmen plant starts to ramp up in 2H23 with new model launches, such as the *Tank 400*, *H5*, and *Gaoshan*, which should boost EVA’s revenue from 2H23E. We project EVA’s auto parts revenue to rise by HK\$ 0.4bn (+20%) YoY to HK\$ 2.3bn in FY24E, largely driven by Mexico and new NEV products. EVA is also in talks with more NEV makers for new NEV orders. Accordingly, we estimate EVA’s auto parts net profit to be flat YoY at around HK\$ 50mn in FY23E and rise 70% YoY to HK\$ 85mn in FY24E.
- **OA’s resilient revenue and margins to hedge in the downturn.** We estimate that the OA business contributed about 80% of EVA’s net profit in 1H23, despite inventory clearance dented its revenue. The company expects such situation to improve in 2H23E and new orders transferred from Shanghai to Weihai to start in 2H23E. Therefore, we project OA’s revenue to rise 8% YoY to almost HK\$ 4.9bn in FY23E, with slightly higher GPM in 2H23E.
- **Earnings/Valuation.** We raise our EVA’s FY23E net profit forecast by 8% to HK\$ 246mn, implying a net profit of HK\$ 124mn in 2H23E. Although our EVA’s 2H23E net profit forecast is flat HoH, its earnings quality is higher than 1H23, as better profitability for auto parts and higher revenue growth for OA could offset the one-off gains from Futaba Metal Shenzhen and forex (we assume no forex gain or loss in 2H23E). We project EVA’s FY24E net profit to rise 20% YoY to HK\$ 296mn (unchanged from our prior forecast), mainly contributed by the Mexico plant and lower interest expenses.

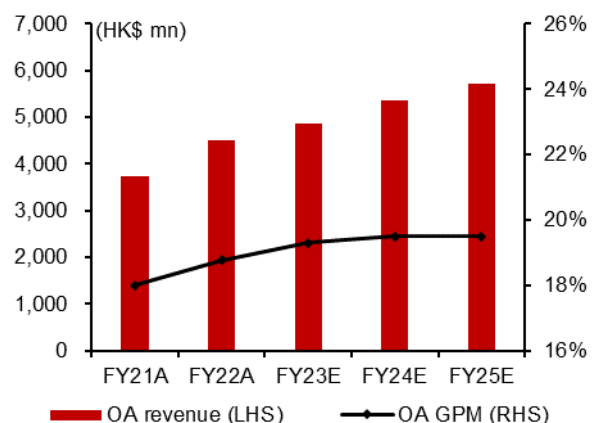
We maintain our BUY rating and target price of HK\$ 1.50, based on the sum-of-the-parts (SOTP) valuation. We value HK\$ 0.55 (unchanged) per share for its auto components business, based on 11x our FY24E P/E (previously 15x FY23E). We lower our target multiple due to our lower revenue and profit growth projection in the auto parts business during FY23-25E. We value HK\$ 0.95 (unchanged) per share for its OA equipment, based on 8x our FY24E P/E (previously 10x FY23E), amid our slower revenue and profit growth during FY23-25E. Key risks to our rating and target price include more severe ICE car order cuts or price cuts, clients’ new model delays, as well as higher SG&A and interest expenses than we expect.

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: FY22 results review

HK\$ mn	1H21	2H21	1H22	2H22	1H23	2H23E	YoY	HoH
Total revenue	2,387	2,722	2,940	3,328	2,862	3,907	17.4%	36.5%
Gross profit	486	526	565	686	545	790	15.2%	45.0%
Selling exp.	(133)	(182)	(124)	(245)	(125)	(273)	11.3%	117.9%
Admin exp.	(287)	(219)	(333)	(282)	(289)	(338)	19.8%	17.1%
Operating profit	82	112	121	152	189	197	29.5%	4.1%
Net profit	68	87	103	103	123	124	19.6%	0.8%
Gross margin	20.4%	19.3%	19.2%	20.6%	19.0%	20.2%	-0.4 ppt	1.2 ppt
Operating margin	3.4%	4.1%	4.1%	4.6%	6.6%	5.0%	0.5 ppt	-1.6 ppt
Net margin	2.8%	3.2%	3.5%	3.1%	4.3%	3.2%	0.1 ppt	-1.1 ppt

Source: Company data, CMBIGM estimates

Figure 4: Earnings revision

HK\$ mn	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	6,770	7,637	8,355	7,297	8,132	9,067	-7.2%	-6.1%	-7.9%
Gross Profit	1,335	1,545	1,692	1,471	1,643	1,826	-9.2%	-5.9%	-7.4%
Operating Profit	386	415	472	373	426	510	3.4%	-2.6%	-7.4%
Net profit	246	296	352	228	296	382	8.0%	-0.1%	-7.9%
Gross Margin	19.7%	20.2%	20.2%	20.2%	20.2%	20.1%	-0.4 ppt	0.0 ppt	0.1 ppt
Operating Margin	5.7%	5.4%	5.7%	5.1%	5.2%	5.6%	0.6 ppt	0.2 ppt	0.0 ppt
Net Margin	3.6%	3.9%	4.2%	3.1%	3.6%	4.2%	0.5 ppt	0.2 ppt	0.0 ppt

Source: CMBIGM estimates

Figure 5: CMBI estimates vs consensus

HK\$ mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	6,770	7,637	8,355	7,297	8,132	9,067	-7.2%	-6.1%	-7.9%
Gross Profit	1,335	1,545	1,692	1,474	1,643	1,822	-9.4%	-5.9%	-7.2%
Operating Profit	386	415	472	373	426	510	3.4%	-2.6%	-7.4%
Net profit	246	296	352	228	296	382	8.0%	-0.1%	-7.9%
Gross Margin	19.7%	20.2%	20.2%	20.2%	20.2%	20.1%	-0.5 ppt	0.0 ppt	0.1 ppt
Operating Margin	5.7%	5.4%	5.7%	5.1%	5.2%	5.6%	0.6 ppt	0.2 ppt	0.0 ppt
Net Margin	3.6%	3.9%	4.2%	3.1%	3.6%	4.2%	0.5 ppt	0.2 ppt	0.0 ppt

Source: Bloomberg, CMBIGM estimates

Figure 6: SOTP valuation table

Segment	FY24E Net profit (HK\$ mn)	Target P/E Multiple	Target Market Cap (HK\$ mn)	Target Price (HK\$)
Auto components	51	11.0x	960	0.55
Office automation	195	8.0x	1,650	0.95
SOTP			2,610	1.50

Source: CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (HK\$ mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	5,109	6,268	6,770	7,637	8,355
Cost of sales	(4,096)	(5,017)	(5,434)	(6,092)	(6,663)
Gross profit	1,013	1,251	1,335	1,545	1,692
Selling exp.	(315)	(369)	(398)	(445)	(479)
Admin exp.	(506)	(615)	(627)	(729)	(800)
Other income	32	22	58	65	73
Other gains / (losses), net	(5)	(8)	36	(4)	8
Impairment loss	(24)	(8)	(17)	(18)	(22)
Operating profit	195	273	386	415	472
Net finance costs	(15)	(42)	(95)	(66)	(58)
Share of profit of JV & asso	0	(0)	(1)	(1)	(1)
Pre-tax profit	180	231	290	348	414
Tax	(25)	(25)	(43)	(52)	(62)
Minority interests	-	-	-	-	-
Net profit	155	206	246	296	352

Cash flow

YE 31 Dec (HK\$ mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Profit before taxation	180	231	290	348	414
Depreciation/amortization	276	272	291	319	342
Change in working capital	(213)	(134)	(146)	2	(42)
Others	17	4	120	75	53
Net cash from operating	259	372	554	744	766
Capex	(376)	(346)	(350)	(320)	(300)
Others	39	(0)	3	(10)	(13)
Net cash from investing	(337)	(346)	(347)	(330)	(313)
Net borrowings	6	518	200	(355)	(251)
Dividend paid	(21)	(57)	(60)	(82)	(105)
Others	(3)	(47)	(29)	47	12
Net cash from financing	(18)	415	111	(390)	(344)
Net change in cash	(96)	441	319	24	110
Cash at beginning of the year	1,406	1,318	1,722	2,041	2,066
FX effect	9	(37)	-	-	-
Cash at the end of the year	1,318	1,722	2,041	2,066	2,175

Balance sheet

YE 31 Dec (HK\$ mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Current assets	3,642	4,297	4,840	5,143	5,543
Cash & equivalents	1,318	1,722	2,041	2,066	2,175
Account receivables	1,382	1,681	1,818	2,030	2,220
Inventories	688	639	730	768	821
Other current assets	253	255	252	280	325
Non-current assets	2,932	2,960	3,063	3,090	3,080
PP&E	2,418	2,454	2,565	2,600	2,590
Right-of-use assets	384	378	392	390	385
Investments in associates	35	31	30	29	28
Other non-current assets	95	98	76	72	78
Total assets	6,574	7,257	7,903	8,233	8,623
Current liabilities	3,226	2,859	2,884	3,015	3,236
Bank borrowings	1,448	966	885	721	697
Payables	1,373	1,490	1,563	1,803	2,008
Contract liabilities	68	99	95	92	92
Other current liabilities	338	305	341	399	440
Non-current liabilities	559	1,559	1,978	1,879	1,735
Bank borrowings	460	1,460	1,860	1,760	1,610
Deferred income	21	23	23	23	23
Other non-current liabilities	78	76	95	96	102
Total liabilities	3,785	4,418	4,862	4,894	4,971
Share capital	175	174	175	181	185
Reserves	2,614	2,664	2,866	3,158	3,467
Minority interests	-	-	-	-	-
Shareholders' equity	2,788	2,838	3,041	3,340	3,652
Total equity and liabilities	6,574	7,257	7,903	8,233	8,623

Key ratios

YE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Sales mix (%)					
Sales of auto components	26.7	28.2	28.2	30.0	31.5
Sales of OA equipment	73.3	71.8	71.8	70.0	68.5
Growth (%)					
Revenue	27.4	22.7	8.0	12.8	9.4
Gross profit	37.2	23.6	6.7	15.7	9.5
Operating profit	461.5	40.4	41.2	7.6	13.8
Net profit	N/A	32.8	19.5	20.1	19.0
Profit & loss ratio (%)					
Gross margin	19.8	20.0	19.7	20.2	20.2
Operating margin	3.8	4.4	5.7	5.4	5.7
Net profit margin	3.0	3.3	3.6	3.9	4.2
Balance sheet ratio					
Net cash (debt)/total equity (x)	(0.2)	(0.2)	(0.2)	(0.1)	0.0
Current ratio (x)	1.1	1.5	1.7	1.7	1.7
Receivable turnover days	99	98	98	97	97
Inventory turnover days	61	46	49	46	45
Payable turnover days	122	108	105	108	110
Profitability (%)					
ROE	5.7	7.3	8.4	9.3	10.1
ROA	2.4	3.0	3.2	3.7	4.2
Per share data (HK\$)					
EPS	0.09	0.12	0.14	0.16	0.19
DPS	0.03	0.04	0.04	0.05	0.07

Source: Company data, CMBIGM estimates

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