

Intron Tech (1760 HK)

FY23 mostly in-line; Expect easing headwinds in FY24E

Intron Tech's FY23 revenue of RMB 5.8bn (+20% YoY) and net income of RMB 317mn (-23.5% YoY) are mostly in-line with our estimates. GPM came in at 18.7% (-2.8ppts YoY) which was slightly below our estimates, and mgmt. attributed lower GPM to intensified price competition from downstream OEMs. R&D expense ratio reached 9.0% due to R&D hires and upfront software/equipment investments, and mgmt. expected gradually normalized R&D spending in FY24E. Overall, we think industry headwind is largely priced in, and we expect gradual earnings recovery in FY24E driven by normalised R&D spending and new product shipments. We trimmed FY24-25E EPS by 5-9% to factor in FY23 results, lower margins and higher R&D expense. Trading at 4.5x/3.0x FY24/25E P/E, we think risk-reward is attractive compared with A/H share peers. Maintain BUY with new TP of HK\$ 5.53. Upcoming catalysts include rising ADAS penetration and NEV client share gain.

- **FY23 inline; NEV strength offset by higher R&D expense and lower GPM.** By segment, new energy/body control/safety/powertrain/automation & connectivity/cloud server revenue delivered +35%/+8%/+33%/+3%/+59%/-52% YoY growth. We are encouraged by solid new energy segment growth despite industry headwinds, given rising client penetration and share gain on new projects. Cloud server weakness was due to shrinking demand from key customers and server market destocking. GPM came in at 18.7% with 2H23 GPM dropped to 17.1%, reflecting the pricing pressure passed through the auto supply chain. R&D expense ratio reached 9.0% due to talent recruitment and upfront software/equipment investments, and mgmt. expected gradually normalized R&D spending in FY24E.
- **FY24E Outlook: Solid NEV/HEV growth with normalised price pressure and R&D expense.** Mgmt. expects Intron's topline to be driven by China's NEV export and HEV demand growth, while margin pressure may persist in near term given intensified downstream competition. Mgmt. also expected the hike in R&D expense in FY23 will gradually normalize in FY24E. Overall, we estimate revenue/net profit growth of 20%/39% YoY in FY24E.
- **Attractive risk/reward, reiterate BUY.** We trimmed FY24-25E EPS by 5-9% mainly to reflect margin and expense pressure in FY24E. Our new TP of HK\$5.53 is based on same 12x FY24E P/E (24% below 5-year hist. avg.). Trading at 4.5x/3.0x FY24/25E P/E, we think risk-reward is attractive especially compared with A/H share peers.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	4,830	5,802	6,975	8,661	10,805
YoY growth (%)	52.1	20.1	20.2	24.2	24.8
Net profit (RMB mn)	415.0	317.4	441.1	655.6	901.9
YoY growth (%)	106.9	(23.5)	39.0	48.6	37.6
EPS (Reported) (RMB)	0.38	0.29	0.41	0.60	0.83
Consensus EPS (RMB)	N/A	N/A	0.55	0.63	0.64
P/E (x)	10.2	13.2	4.5	3.0	2.2
P/B (x)	2.0	1.8	0.7	0.6	0.5
Yield (%)	3.4	2.3	6.8	10.1	13.9
ROE (%)	21.3	14.1	17.5	22.6	26.1

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$5.53
(Previous TP)	HK\$6.10)
Up/Downside	179.4%
Current Price	HK\$1.98

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Stock Data

Mkt Cap (HK\$ mn)	2,153.2
Avg 3 mths t/o (HK\$ mn)	1.5
52w High/Low (HK\$)	5.92/1.86
Total Issued Shares (mn)	1087.5

Source: FactSet

Shareholding Structure

Magnate Era Ltd	48.3%
Luk Wing Ming	6.9%

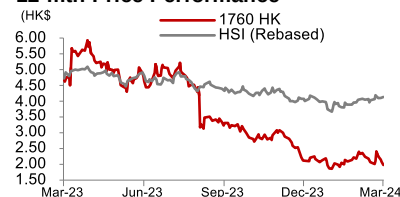
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-15.0%	-16.8%
3-mth	-7.9%	-9.2%
6-mth	-40.2%	-37.4%

Source: FactSet

12-mth Price Performance



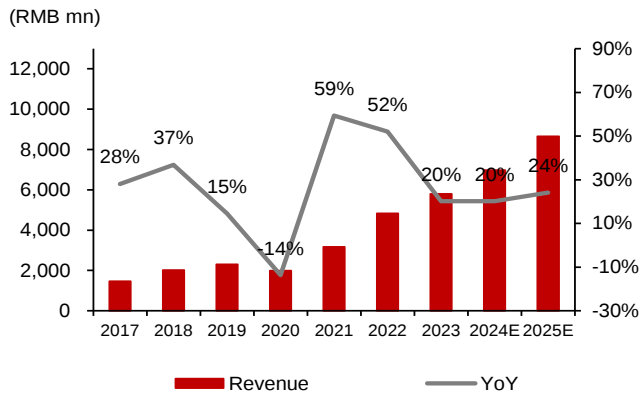
Source: FactSet

Related reports:

1. Intron Tech (1760 HK)-FY23E Preview: industry headwinds mostly priced in; Awaiting recovery in FY24E ([link](#))
2. Intron Tech (1760 HK)-1H23 results below; expect back-loaded in 2H23E ([link](#))
3. Intron Tech (1760 HK) – 1H23E Preview: strong growth despite industry headwinds; expect back-loaded in 2H23E ([link](#))
4. Intron Tech (1760 HK) – NDR takeaways: Strong order backlog in 2H23E; Solid pipeline to drive growth into FY24/25E ([link](#))
5. Intron Tech (1760 HK) – Beneficiary of automotive megatrends in electrification and intelligence ([link](#))

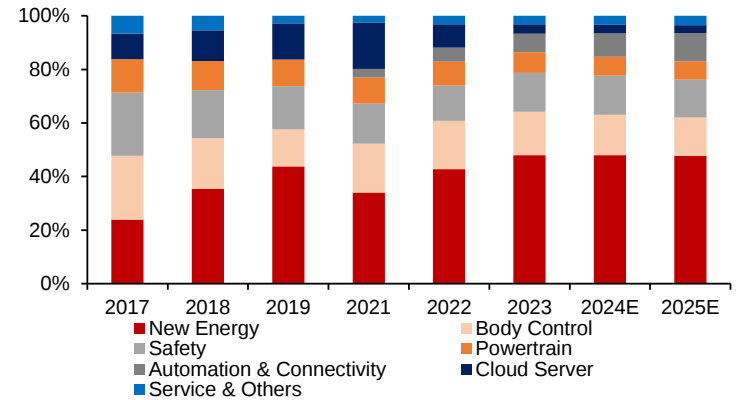
Focus Charts

Figure 1: Intron's revenue forecast



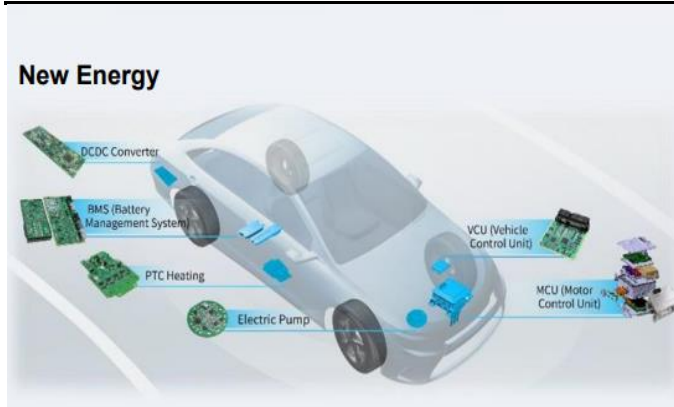
Source: Company data, CMBIGM estimates

Figure 2: Intron's revenue breakdown



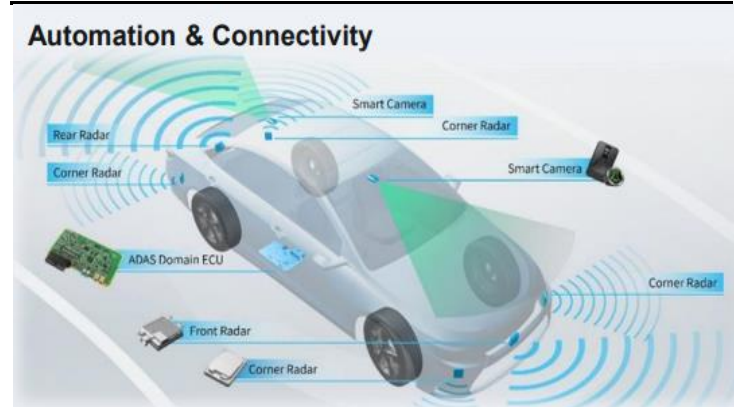
Source: Company data, CMBIGM estimates

Figure 3: Intron's new energy vehicle solutions



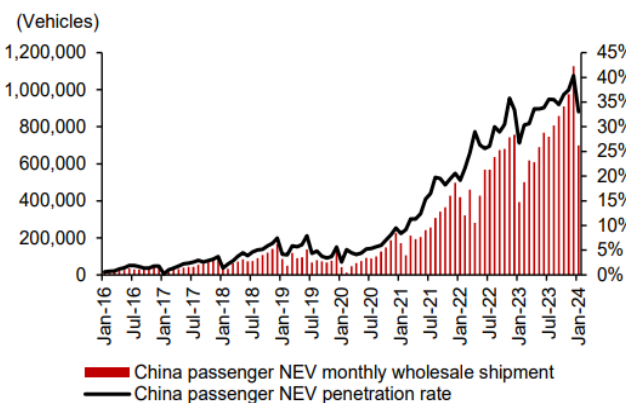
Source: Company data, CMBIGM estimates

Figure 4: Intron's intelligent vehicle solutions



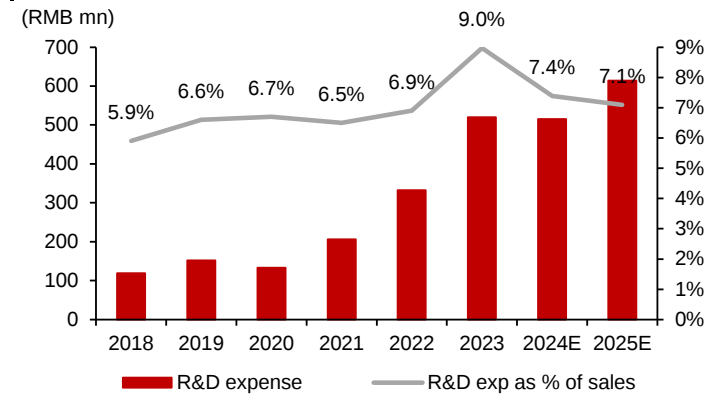
Source: Company data, CMBIGM estimates

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 (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	6,975	8,661	10,805	8,216	9,628	11,101	-15%	-10%	-3%
Gross profit	1,298	1,672	2,125	1,649	1,918	2,242	-21%	-13%	-5%
Net profit	441	656	902	599	677	701	-26%	-3%	29%
EPS (RMB)	0.40	0.60	0.82	0.55	0.63	0.64	-27%	-5%	28%
Gross margin	18.6%	19.3%	19.7%	20.1%	19.9%	20.2%	-1.5 ppt	-0.6 ppt	-0.5 ppt
Net Margin	6.3%	7.6%	8.3%	7.3%	7.0%	6.3%	-1 ppt	0.5 ppt	2 ppt

Source: Bloomberg, CMBIGM estimates

Figure 8: Earnings Revision

RMB mn	New			Old			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	6,975	8,661	10,805	6,926	8,604	N/A	1%	1%	N/A
Gross profit	1,298	1,672	2,125	1,312	1,692	N/A	-1%	-1%	N/A
Net profit	441	656	902	486	691	N/A	-9%	-5%	N/A
EPS (RMB)	0.40	0.60	0.82	0.44	0.63	N/A	-9%	-5%	N/A
Gross margin	18.6%	19.3%	19.7%	18.9%	19.7%	N/A	-0.3 ppt	-0.4 ppt	N/A
Net Margin	6.3%	7.6%	8.3%	7.0%	8.0%	N/A	-0.7 ppt	-0.5 ppt	N/A

Source: CMBIGM estimates

Figure 9: Revenue breakdown by segment

RMB mn	2021	2022	1H23A	2H23A	2023A	2024E	2025E
New Energy	1,082	2,067	1,253	1,535	2,788	3,345	4,136
... YoY	131.6%	91.0%	58.1%	20.5%	34.9%	20.0%	23.7%
Body Control	579	868	417	518	934	1,054	1,242
... YoY	37.1%	50.0%	-3.2%	18.3%	7.7%	12.8%	17.8%
Safety	476*	636*	390	454	845	1,021	1,226
... YoY	-2.9%	33.5%	43.1%	25.1%	32.8%	20.9%	20.0%
Powertrain	309	432	219	228	446	491	589
... YoY	26.6%	39.9%	41.0%	-17.7%	3.3%	10.0%	20.0%
Automation & Connectivity	101*	255*	203	201	405	607	910
... YoY	-	151.3%	117.7%	24.8%	58.8%	50.0%	50.0%
Cloud Server	550	420	87	115	202	222	255
... YoY	81.5%	-23.5%	-71.1%	-3.4%	-52.0%	10.0%	15.0%
Service & Others	79	152	57	126	183	235	302
... YoY	19.1%	91.8%	95.4%	2.4%	20.3%	28.6%	28.6%
Revenue	3,176	4,830	2,626	3,176	5,802	6,975	8,661
... YoY	59.4%	52.1%	26.5%	15.3%	20.1%	20.2%	24.2%

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

Figure 10: P&L forecast

RMB mn	2021	2022	1H23A	2H23A	2023A	2024E	2025E
Revenue	3,176	4,830	2,626	3,176	5,802	6,975	8,661
...YoY	59.4%	52.1%	26.5%	15.3%	20.1%	20.2%	24.2%
Cost of sales	-2,551	-3,789	-2,085	-2,634	-4,719	-5,677	-6,989
Gross profit	625	1,041	541	543	1,084	1,298	1,672
GPM (%)	19.7%	21.5%	20.6%	17.1%	18.7%	18.6%	19.3%
...YoY	74.5%	66.4%	20.8%	-8.5%	4.1%	19.8%	28.8%
S&M	-101	-106	-53	-60	-113	-136	-173
...% of rev	-3.2%	-2.2%	-2.0%	-1.9%	-2.0%	-1.9%	-2.0%
R&D	-206	-332	-233	-287	-520	-516	-614
...% of rev	-6.5%	-6.9%	-8.9%	-9.0%	-9.0%	-7.4%	-7.1%
Admin	-107	-95	-42	-37	-79	-91	-104
...% of rev	-3.4%	-2.0%	-1.6%	-1.2%	-1.4%	-1.3%	-1.2%
Pre-tax profit	217	455	145	157	302	472	701
Pre-tax profit margin (%)	6.8%	9.4%	5.5%	4.9%	5.2%	6.8%	8.1%
...YoY	120.9%	109.9%	-13.4%	-45.3%	-33.6%	56.1%	48.6%
Net profit	201	415	154	163	317	441	656
NPM (%)	6.3%	8.6%	5.8%	5.1%	5.5%	6.3%	7.6%
...YoY	111.6%	106.9%	1.2%	-37.9%	-23.5%	39.0%	48.6%

Source: Company data, CMBIGM estimates

Valuation

Maintain BUY with new TP of HK\$5.53.

Our new TP of HK\$5.53 is based on same 12x FY24E 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 16% earnings CAGR over 2022-25E and 26%/53% sales CAGR in New Energy and Automation & Connectivity segments.

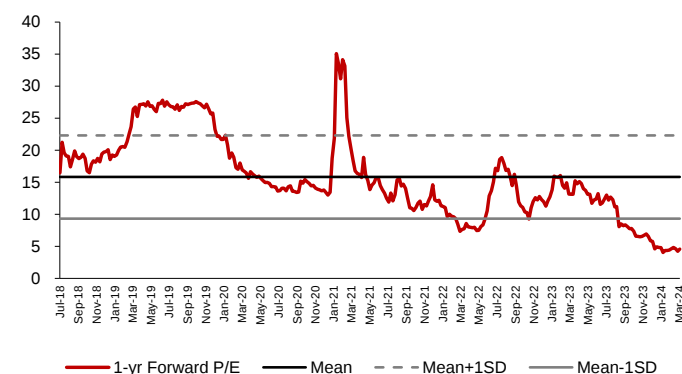
Intron now trades at 6.2x/4.5x FY23/24E P/E, vs 22.8x/18.3x FY23/24E P/E for A/H-listed automobile components/solutions peers. We think Intron is highly undervalued, especially considering its high ROE level. Upcoming catalysts include potential favourable NEV policy, rising ADAS/AD penetration, share 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	275	1.98	5.53	179%	6.2	4.5	0.8	0.7	14.1	17.5
BOE Varitronix	710 HK	BUY	545	5.38	23.7	341%	6.2	5.0	0.4	0.4	7.2	7.5
BYD Electronics	285 HK	BUY	8,816	30.60	45.9	50%	15.7	11.5	2.1	1.8	13.4	15.7
Luxshare	002475 CH	BUY	29,571	29.73	47.0	58%	19.2	15.2	2.1	1.9	10.9	12.3
Desay SV	002920 CH	NR	9,307	120.72	NA	NA	44.8	32.4	8.6	7.1	20.4	23.2
Foryou Corp	002906 CH	NR	1,931	26.51	NA	NA	30.2	21.6	2.6	2.4	8.9	10.9
Joyson	600699 CH	NR	3,428	17.52	NA	NA	22.6	17.2	1.8	1.7	8.3	10.0
Jingwei Hirain	688326 CH	NR	1,242	74.49	NA	NA	-	36.8	1.7	1.7	(1.7)	5.4
Average							22.8	18.3	2.5	2.1	10.2	12.5

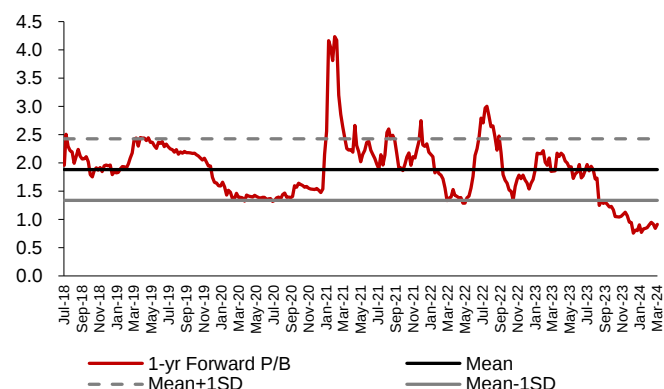
Source: Bloomberg, CMBIGM estimates

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	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	3,176	4,830	5,802	6,975	8,661	10,805
Cost of goods sold	(2,551)	(3,789)	(4,719)	(5,677)	(6,989)	(8,680)
Gross profit	625	1,041	1,084	1,298	1,672	2,125
Selling expense	(101)	(106)	(113)	(136)	(173)	(216)
Admin expense	(313)	(427)	(599)	(606)	(718)	(864)
Other income	30	40	83	36	36	36
Other expense	(2)	(50)	(51)	(35)	(43)	(54)
Share of (losses)/profits of associates/JV	1	2	(0)	(0)	(0)	(0)
Net Interest income/(expense)	(24)	(45)	(100)	(85)	(72)	(61)
Pre-tax profit	217	455	302	472	701	964
Income tax	(17)	(44)	10	(24)	(35)	(48)
After tax profit	200	411	313	448	666	916
Minority interest	(0)	(4)	(5)	(7)	(10)	(14)
Net profit	201	415	317	441	656	902
Gross dividends	60	126	97	134	200	275

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	2,294	3,351	4,571	4,876	5,642	6,246
Cash & equivalents	572	337	517	412	215	156
Account receivables	1,163	1,698	1,848	2,379	2,715	3,641
Inventories	498	1,086	1,554	1,434	2,060	1,797
Prepayment	27	182	506	506	506	506
ST bank deposits	32	49	145	145	145	145
Financial assets at FVTPL	0	0	0	0	0	0
Other current assets	0	0	0	0	0	0
Contract assets	1	0	0	0	0	0
Non-current assets	565	724	972	925	943	1,001
PP&E	170	195	250	222	227	243
Right-of-use assets	33	33	41	47	57	87
Deferred income tax	42	54	106	106	106	106
Intangibles	224	325	363	337	341	352
Financial assets at FVTPL	76	85	143	143	143	143
Other non-current assets	20	32	69	69	69	69
Total assets	2,859	4,075	5,543	5,801	6,585	7,246
Current liabilities	1,097	1,907	2,899	2,842	3,161	3,181
Short-term borrowings	632	950	1,384	1,384	1,384	1,384
Account payables	237	331	596	540	858	878
Tax payable	18	27	55	55	55	55
Other current liabilities	1	1	3	3	3	3
Lease liabilities	15	20	16	16	16	16
Accrued expenses	194	578	845	845	845	845
Non-current liabilities	19	20	286	286	286	286
Long-term borrowings	0	0	268	268	268	268
Other non-current liabilities	19	20	18	18	18	18
Share capital	9	9	9	9	9	9
Other reserves	1,733	2,129	2,344	2,657	3,123	3,765
Total shareholders equity	1,743	2,149	2,359	2,672	3,138	3,780
Minority interest	1	11	6	6	6	6
Total equity and liabilities	2,859	4,075	5,543	5,801	6,585	7,246

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	217	455	302	472	701	964
Depreciation & amortization	60	85	99	107	113	103
Tax paid	(22)	(42)	38	(24)	(35)	(48)
Change in working capital	(285)	(797)	(87)	(467)	(644)	(642)
Others	16	6	0	0	0	0
Net cash from operations	(15)	(293)	352	88	135	377
Investing						
Capital expenditure	(159)	(200)	(129)	(130)	(132)	(160)
Acquisition of subsidiaries/ investments	0	0	0	0	0	0
Net proceeds from disposal of short-term investments	0	26	0	0	0	0
Others	(64)	(21)	0	0	0	0
Net cash from investing	(222)	(194)	(129)	(130)	(132)	(160)
Financing						
Dividend paid	(29)	(63)	(97)	(134)	(200)	(275)
Net borrowings	208	269	0	0	0	0
Proceeds from share issues	253	0	0	0	0	0
Others	(4)	(0)	0	0	0	0
Net cash from financing	428	205	(97)	(134)	(200)	(275)
Net change in cash						
Cash at the beginning of the year	388	572	337	517	412	215
Exchange difference	(8)	47	54	71	0	0
Cash at the end of the year	572	337	517	412	215	156

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

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