

L.K. Technology (558 HK)

Key takeaways from plant visit in Shenzhen

- Integrated die-casting solution continues to offer cost advantage to auto makers.** LK believes that the replacement of welding by die-casting will continue, as it helps auto makers achieve: **(1) Cost reduction:** 40% reduction in capex and 30% decrease in floor area taken by production line; **(2) Lightweighting:** 10-20% reduction in total car weight, translating into a 14% enhancement in driving range/charging for NEV; and **(3) Production efficiency:** production cycle is shortened substantially from 120mins to 110-120s by applying integrated die-casting technology.
- Estimated market size of ultra-large size die-casting machinery.** According to LK, each ultra-large size die-casting machine can produce ~155k units of component annually. Each NEV generally needs three pieces of large die-casting parts. Assuming 12.5mn units of NEV demand in China in 2025E (according to CMBI auto team), we estimate the total operating volume of die-casting machines will potentially reach ~300 sets (assuming 80% utilization rate) if integrated die-casting solution is fully applied. The ultra-large size die-casting machinery (6000T and above) market will potentially reach ~RMB19bn by 2025E (based on estimated ASP of RMB63mn).
- New production plant to boost capacity growth in FY24E (Mar year-end).** Hangzhou Bay plant is LK's new production base which is expected to commence operation in Jul/Aug 2023. Upon completion, LK's monthly capacity of ultra-large size die-casting machine will increase substantially from 2-3 sets currently to 8 sets.
- Launch of new products and cross-selling strategy.** Two ultra-large size die-casting unit models with large tonnage (>12,000T) will be launched in 2HFY24E, which is specifically designed for the production of (i) front, middle and rear chassis for A00 class models, and (ii) mid-floor battery tray. On the other hand, LK plans to boost the sales of CNC machines through cross-selling strategy, given the standard combination of one unit of die-casting machine and four units of CNC machine.
- Potential earnings recovery in FY24E.** Given the gradual recovery of sales in 2HFY23E (Oct 2022 - Mar 2023), we see potential for LK's to achieve revenue growth of 10-20% YoY and stable net profit in FY23E (note: 1HFY23E revenue/ net profit growth: +3%/ -33% due to lockdown in SH). Going forward, LK targets to deliver a 30% YoY revenue growth in FY24E, mainly driven by the rising contribution of ultra-large size die-casting machinery (The average selling price of 6,000-9,000T/12,000T models: RMB40-50mn/RMB100mn).

Earnings Summary

(YE 31 Mar)	FY19A	FY20A	FY21A	FY22A
Revenue (HK\$ mn)	3,604	2,746	4,021	5,362
YoY growth (%)	-3.3	-23.8	46.4	33.4
Net income (HK\$ mn)	191	3	344	626
EPS (HK\$)	0.160	0.003	0.262	0.456
YoY growth (%)	-26.3	-98.3	9430.9	74.0
Consensus EPS (HK\$)	n/a	n/a	n/a	n/a
P/E (x)	58.7	3416.1	35.8	20.6
P/B (x)	5.8	6.2	5.0	3.5
Yield (%)	0.5	0.0	0.6	1.0
ROE (%)	8.7	0.2	15.5	20.3
Net gearing (%)	28.4	49.4	20.5	14.2

Source: Company data, CMBIGM

NOT RATED

Current Price

HK\$9.40

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Stock Data

Mkt Cap (HK\$ mn)	12,938
Avg 3 mths t/o (HK\$ mn)	125.27
52w High/Low (HK\$)	19.76/ 5.84
Total Issued Shares (mn)	1,370.4

Source: Bloomberg

Shareholding Structure

Liu's family	62.3%
Others	37.7%

Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-4.7%	-0.6%
3-mth	33.0%	33.6%
6-mth	-1.3%	-8.5%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PricewaterhouseCoopers

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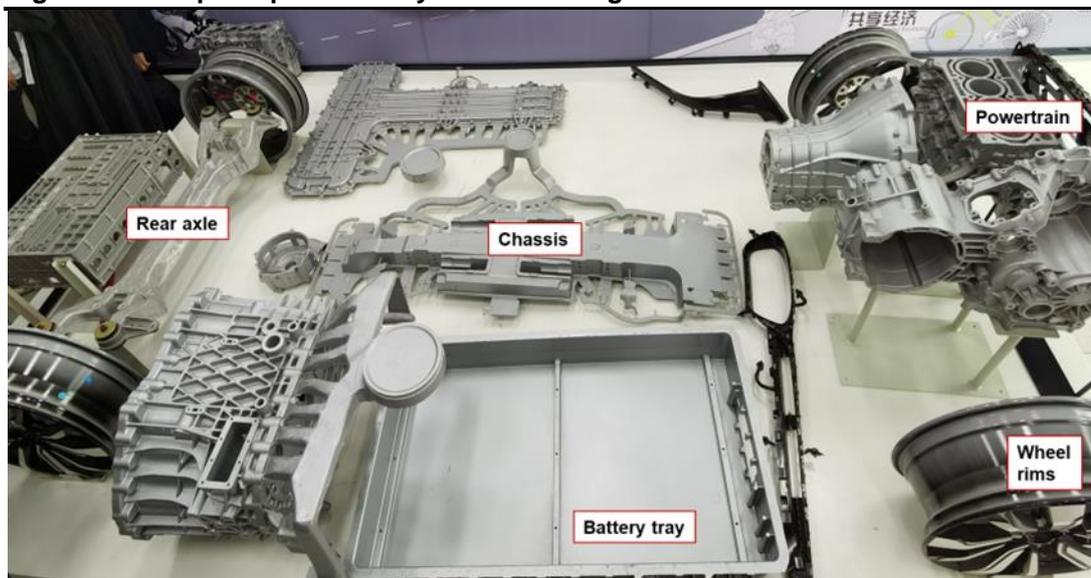
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Figure 1: LK's 3500T die-casting machine



Source: Company data, CMBIGM

Figure 2: Auto parts produced by LK die-casting machine



Source: Company, CMBIGM

Figure 3: Heatsink and filter applied in 5G communication produced by LK die-casting machine



Source: Company, CMBIGM

Figure 4: Escalator step produced by LK die-casting machine



Source: Company, CMBIGM

Figure 5: LK's revenue breakdown

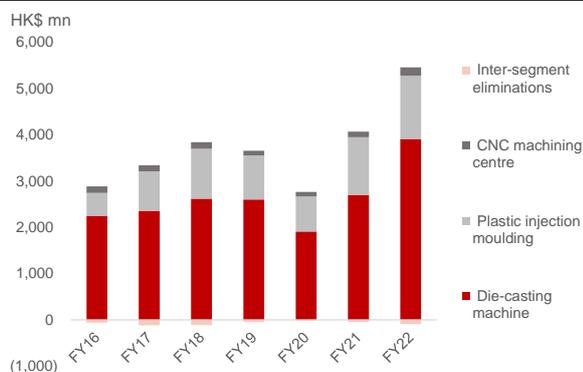
	FY18	FY19	FY20	FY21	FY22
Revenue (HK\$ mn)					
Die-casting machine	2,618	2,602	1,909	2,700	3,907
Plastic injection moulding	1,079	949	756	1,246	1,365
CNC machining centre	142	103	99	118	181
Total (before inter-segment elimination)	3,839	3,653	2,765	4,064	5,453
Inter-segment eliminations	(110)	(49)	(19)	(43)	(91)
Total revenue	3,729	3,604	2,746	4,021	5,362
Growth (YoY)					
Die-casting machine	11.1%	-0.6%	-26.6%	41.5%	44.7%
Plastic injection moulding	27.1%	-12.1%	-20.3%	64.7%	9.6%
CNC machining centre	4.9%	-27.6%	-3.1%	19.0%	53.0%
Total (before inter-segment elimination)	14.9%	-4.8%	-24.3%	47.0%	34.2%
Inter-segment eliminations	-4.0%	-55.7%	-61.9%	130.7%	110.8%
Total revenue	15.6%	-3.3%	-23.8%	46.4%	33.4%

Source: Company data, CMBIGM

Figure 6: LK's financials

YE Mar 31 (HK\$ mn)	FY18	FY19	FY20	FY21	FY22
Revenue					
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Cost of sales	(2,723)	(2,715)	(2,028)	(2,906)	(3,796)
Gross profit	1,005	890	718	1,115	1,566
Other income	66	65	70	75	103
Other gains and losses	97	79	(11)	59	39
S&D expenses	(350)	(339)	(291)	(366)	(481)
Administrative expenses	(413)	(353)	(334)	(344)	(430)
Other expenses	(12)	(12)	(22)	(23)	(5)
EBIT	393	329	131	515	793
Net finance income/(expense)	(68)	(76)	(80)	(49)	(27)
Finance income	5	5	5	8	7
Finance expenses	(73)	(81)	(85)	(56)	(34)
Share of profit of JV and associates	3	0	(1)	(8)	0
Pretax profit	327	254	50	458	766
Income tax	(86)	(63)	(47)	(114)	(140)
After tax profit	241	191	3	344	626
MI	1	0	0	0	0
Net profit	242	191	3	344	626
Core net profit	144	111	14	285	586
D&A	135	139	138	134	146
EBITDA	528	468	269	649	938

Source: Company data, CMBIGM

Figure 7: LK's revenue trend by product

Source: Company data, CMBIGM

Figure 8: LK's gross margin trend

Source: Company data, CMBIGM

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