

EVA Holdings (838 HK)

Recovering gradually

Despite lingering industry headwinds, we believe EVA Holdings' profitability is on track to recover from weak 1Q23, especially with strong office automation (OA) equipment profit growth, based on our channel checks and meetings with various management in both auto parts and OA businesses, including chairman, CEO and CFO, during the past two months.

- **We lower auto parts revenue projection amid industry headwinds.** We project EVA's auto parts revenue to rise 20% YoY, or HK\$ 350mn YoY, to HK\$ 2.1bn in FY23E, lower than management's guidance of HK\$ 2.3bn to account for industrywide sales uncertainties, especially from internal combustion engine (ICE) cars. We expect revenue from Tesla's front-seat frame components to rise HK\$ 100mn YoY to HK\$ 180mn in FY23E, assuming content per vehicle of HK\$ 220 and production volume of 0.82mn units in North America.

We project revenue from Faurecia to rise HK\$ 50mn YoY to HK\$ 500mn in FY23E, driven by Tesla *Model Y*'s backseat components. More importantly, we expect gross margin from Faurecia's businesses to improve in FY23E. Faurecia was one of the reasons for EVA's Mexico profit miss in FY22.

Great Wall Motor (2333 HK/601633 CH, BUY) postponed quite a few new model launches in FY22, which dragged EVA's revenue growth last year. We expect EVA's revenue from Great Wall to rise HK\$ 100mn YoY to HK\$ 360mn in FY23E, as EVA is to supply components to at least five new models at Great Wall.

We expect revenue from BYD (1211 HK/002594 CH, HOLD), Brose, Huawei and Japanese tier-1 suppliers to contribute YoY growth of HK\$ 100mn.

- **We expect auto parts' gross margin to widen slightly YoY despite new challenges.** The auto parts' gross margin miss in FY22 mainly came from EVA's Mexico plant, as high margins from Tesla were not enough to offset the challenges from Faurecia and efficiency loss compared with China. We believe both overhangs have been at least partially removed now amid China's reopening with more hands-on management and re-negotiation with Faurecia. We estimate auto parts' gross margin to widen from 23.0% in FY22 to 23.6% in FY23E, as we also account for possible gross margin dent from other customers amid industrywide headwinds.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (HK\$ mn)	5,109	6,268	7,297	8,132	9,067
YoY growth (%)	27.4	22.7	16.4	11.5	11.5
Net income (HK\$ mn)	155	206	228	296	382
EPS (HK\$)	0.09	0.12	0.13	0.16	0.21
YoY growth (%)	N/A	32.8	10.5	30.1	28.9
P/E (x)	8.8	6.7	6.1	4.8	3.8
P/B (x)	0.5	0.5	0.4	0.4	0.4
Yield (%)	3.4	4.5	4.9	6.6	8.9
ROE (%)	5.7	7.3	7.7	9.2	10.9
Net gearing (%)	17.5	20.9	13.5	2	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$ 1.50
(Previous TP)	HK\$ 3.00)
Up/Downside	+89.9%
Current Price	HK\$ 0.79

China Auto Sector

SHI Ji, CFA

(852) 3761 8728
shiji@cmbi.com.hk

DOU Wenjing, CFA

(852) 6939 4751
douwenjing@cmbi.com.hk

GU Sijie

jasongu@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	1,375
Avg 3 mths t/o (HK\$ mn)	3
52w High/Low (HK\$)	2.28/0.72
Total Issued Shares (mn)	1,741

Source: Bloomberg

Shareholding Structure

Zhang Hwo Jie's Family	44.3%
Others	55.7%

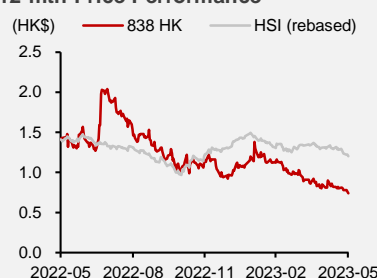
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-2.7%	2.3%
3-mth	-30.4%	-22.5%
6-mth	-35.4%	-32.5%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PricewaterhouseCoopers

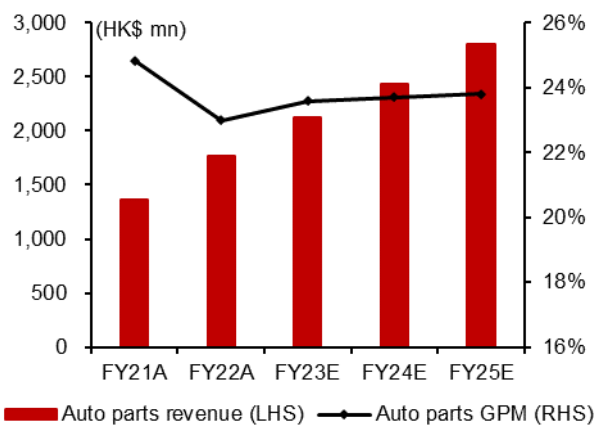
Related Report

["EVA Holdings – Poised for higher growth in 2H22" – 20 Jul 2022](#)

["EVA Holdings – Auto components' inflection point has arrived" – 12 May 2022](#)

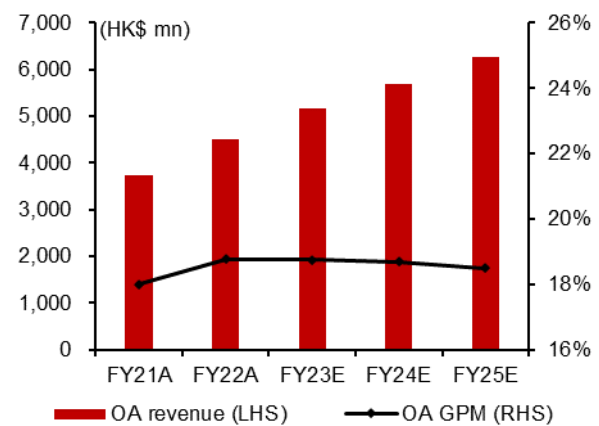
- Both revenue and profit in OA may beat expectation in FY23E.** We expect OA's revenue to rise 15% YoY to HK\$ 5.2bn amid strong new orders in its Weihai and Vietnam plants. More importantly, as more foreign players exit China market, the portion of EVA's self-made components for its OA assembly business will increase, which would lift EVA's overall OA gross margin. This could be a margin driver for the next three years, although it may not be apparent for FY23E. We project EVA's OA gross margin to be flat YoY at 18.7% in FY23E.
- We expect operating profit to rise substantially YoY but finance costs may drag net profit in FY23E.** We project EVA's operating profit to rise 37% YoY to HK\$ 373mn in FY23E given 16% YoY growth in revenue and 0.2 ppt YoY lift in gross margin. However, we expect its finance costs to more than double YoY to HK\$ 135mn in FY23E amid interest hike in Hong Kong. Accordingly, we estimate EVA's net profit to rise 10% YoY to HK\$ 228mn in FY23E.
- Valuation/Key risks.** We maintain our BUY rating but cut our target price from HK\$ 3.00 to HK\$ 1.50, based on the sum-of-the-parts (SOTP) valuation. We value HK\$ 0.55 (previously HK\$ 2.34) per share for its auto components business, based on 15x (previously 20x) of our FY23E P/E. We lower our target multiple amid our lower revenue and profit growth projection in the auto parts business now. On the other hand, we are of the view that our new target multiple is justified given its revenue growth projection in the next two years, with more components from Tesla in FY24E and higher revenue from Chinese NEV makers, such as BYD. We value HK\$ 0.95 (previously HK\$ 0.66) per share for its OA equipment, based on 10x (previously 8.5x) of our FY23E P/E amid our higher revenue and profit growth projection now for the next three years. We expect its OA revenue to continue rising 10% YoY in both FY24E and FY25E, with stable gross margin trajectory, which could beat many investors' expectations. 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	1H20	2H20	1H21	2H21	1H22	2H22	YoY	HoH
Total revenue	1,700	2,308	2,387	2,722	2,940	3,328	22.3%	13.2%
Gross profit	296	442	486	526	565	686	30.4%	21.5%
Selling exp.	(96)	(141)	(133)	(182)	(124)	(245)	34.9%	97.9%
Admin exp.	(242)	(221)	(287)	(219)	(333)	(282)	29.0%	-15.2%
Operating profit	(46)	80	82	112	121	152	35.3%	25.4%
Net profit	(66)	50	68	87	103	103	18.4%	0.7%
Gross margin	17.4%	19.1%	20.4%	19.3%	19.2%	20.6%	1.3 ppt	1.4 ppt
Operating margin	-2.7%	3.5%	3.4%	4.1%	4.1%	4.6%	0.4 ppt	0.4 ppt
Net margin	-3.9%	2.2%	2.8%	3.2%	3.5%	3.1%	-0.1 ppt	-0.4 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	7,297	8,132	9,067	8,238	9,777	N/A	-11.4%	-16.8%	N/A
Gross Profit	1,471	1,643	1,826	1,874	2,316	N/A	-21.5%	-29.1%	N/A
Operating Profit	373	426	510	657	932	N/A	-43.2%	-54.3%	N/A
Net profit	228	296	382	545	787	N/A	-58.2%	-62.4%	N/A
Gross Margin	20.2%	20.2%	20.1%	22.7%	23.7%	N/A	-2.6 ppt	-3.5 ppt	N/A
Operating Margin	5.1%	5.2%	5.6%	8.0%	9.5%	N/A	-2.9 ppt	-4.3 ppt	N/A
Net Margin	3.1%	3.6%	4.2%	6.6%	8.0%	N/A	-3.5 ppt	-4.4 ppt	N/A

Source: CMBIGM estimates

Figure 5: CMBI estimates vs consensus

HK\$ mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	7,297	8,132	9,067	8,445	10,411	N/A	-13.6%	-21.9%	N/A
Gross Profit	1,471	1,643	1,826	1,883	2,441	N/A	-21.9%	-32.7%	N/A
Operating Profit	373	426	510	536	739	N/A	-30.4%	-42.3%	N/A
Net profit	228	296	382	499	697	N/A	-54.4%	-57.5%	N/A
Gross Margin	20.2%	20.2%	20.1%	22.3%	23.5%	N/A	-2.1 ppt	-3.3 ppt	N/A
Operating Margin	5.1%	5.2%	5.6%	6.3%	7.1%	N/A	-1.2 ppt	-1.9 ppt	N/A
Net Margin	3.1%	3.6%	4.2%	5.9%	6.7%	N/A	-2.8 ppt	-3.1 ppt	N/A

Source: Bloomberg, CMBIGM estimates

Figure 6: SOTP valuation table

Segment	Estimated Net profit of FY23E (HK\$ mn)	Target P/E Multiple	Target Market Cap (HK\$ mn)	Target Price (HK\$)
Auto components	64	15x	960	0.55
Office automation	164	10x	1,640	0.95
SOTP			2,600	1.50

Source: CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (HK\$ mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	5,109	6,268	7,297	8,132	9,067
Cost of sales	(4,096)	(5,017)	(5,826)	(6,489)	(7,241)
Gross profit	1,013	1,251	1,471	1,643	1,826
Selling exp.	(315)	(369)	(419)	(458)	(497)
Admin exp.	(506)	(615)	(678)	(752)	(823)
Other income	32	22	25	25	28
Other gains / (losses), net	(5)	(8)	(8)	(13)	(2)
Impairment loss	(24)	(8)	(18)	(19)	(23)
Operating profit	195	273	373	426	510
Net finance costs	(15)	(42)	(113)	(77)	(60)
Share of profit of JV & asso	0	(0)	(1)	(1)	(1)
Pre-tax profit	180	231	259	348	449
Tax	(25)	(25)	(31)	(52)	(67)
Minority interests	-	-	-	-	-
Net profit	155	206	228	296	382

Cash flow summary

YE 31 Dec (HK\$ mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Profit before taxation	180	231	259	348	449
Depreciation/amortization	276	272	303	335	357
Change in working capital	(213)	(134)	(34)	1	(21)
Others	17	4	141	76	47
Net cash from operating	259	372	669	760	832
Capex	(376)	(346)	(300)	(300)	(250)
Others	39	(0)	5	(10)	(13)
Net cash from investing	(337)	(346)	(295)	(310)	(263)
Net borrowings	6	518	(12)	(384)	(301)
Dividend paid	(21)	(57)	(58)	(79)	(109)
Others	(3)	(47)	4	47	(48)
Net cash from financing	(18)	415	(66)	(415)	(458)
Net change in cash	(96)	441	309	35	111
Cash at beginning of the year	1,406	1,318	1,722	2,031	2,066
FX effect	9	(37)	-	-	-
Cash at the end of the year	1,318	1,722	2,031	2,066	2,177

Balance sheet

YE 31 Dec (HK\$ mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Current assets	3,642	4,297	5,012	5,349	5,815
Cash & equivalents	1,318	1,722	2,031	2,066	2,177
Account receivables	1,382	1,681	1,999	2,228	2,484
Inventories	688	639	718	765	813
Other current assets	253	255	264	291	340
Non-current assets	2,932	2,960	3,005	2,996	2,923
PP&E	2,418	2,454	2,504	2,502	2,428
Right-of-use assets	384	378	392	390	385
Investments in associates	35	31	30	29	28
Other non-current assets	95	98	80	75	83
Total assets	6,574	7,257	8,017	8,345	8,738
Current liabilities	3,226	2,859	2,982	3,106	3,365
Bank borrowings	1,448	966	683	491	414
Payables	1,373	1,490	1,836	2,098	2,381
Contract liabilities	68	99	102	98	100
Other current liabilities	338	305	361	420	470
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	4,960	4,985	5,100
Share capital	175	174	178	184	184
Reserves	2,614	2,664	2,880	3,176	3,454
Minority interests	-	-	-	-	-
Shareholders' equity	2,788	2,838	3,058	3,360	3,638
Total equity and liabilities	6,574	7,257	8,017	8,345	8,738

Key ratios

YE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Sales mix (%)					
Sales of auto components	26.7	28.2	29.0	30.0	30.9
Sales of OA equipment	73.3	71.8	71.0	70.0	69.1
Growth (%)					
Revenue	27.4	22.7	16.4	11.5	11.5
Gross profit	37.2	23.6	17.5	11.7	11.2
Operating profit	461.5	40.4	36.5	14.2	19.7
Net profit	N/A	32.8	10.5	30.1	28.9
Profit & loss ratio (%)					
Gross margin	19.8	20.0	20.2	20.2	20.1
Operating margin	3.8	4.4	5.1	5.2	5.6
Net profit margin	3.0	3.3	3.1	3.6	4.2
Balance sheet ratio					
Net cash (debt)/total equity (x)	(0.2)	(0.2)	(0.1)	(0.0)	0.1
Current ratio (x)	1.1	1.5	1.7	1.7	1.7
Receivable turnover days	99	98	100	100	100
Inventory turnover days	61	46	45	43	41
Payable turnover days	122	108	115	118	120
Profitability (%)					
ROE	5.7	7.3	7.7	9.2	10.9
ROA	2.4	3.0	3.0	3.6	4.5
Per share data (HK\$)					
EPS	0.09	0.12	0.13	0.16	0.21
DPS	0.03	0.04	0.04	0.05	0.07

Source: Company data, CMBIGM estimates

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIGM Ratings

BUY : Stock with potential return of over 15% over next 12 months
HOLD : Stock with potential return of +15% to -10% over next 12 months
SELL : Stock with potential loss of over 10% over next 12 months
NOT RATED : Stock is not rated by CMBIGM

OUTPERFORM : Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM : Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

CMB International Global Markets Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIGM will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.