

Intron Tech (1760 HK)

NDR takeaways: Strong order backlog in 2H23E; Solid pipeline to drive growth into FY24/25E

We hosted an NDR meeting with Intron's co-founder/co-CEO, Mr. Davy Luk, this week. Investors are interested in China NEV/autonomous driving trends, Intron's business strategy and product roadmap. Mgmt. expressed positive view on 2H23 order backlog, expansion plan, and automotive electrification and intelligence trends. Given recent price cut and de-spec pressure from auto OEM clients, mgmt. believes Intron is well-positioned to capture more new orders from clients, leveraging their leading technology platform and cost advantages from economies of scale. Overall, mgmt. expected strong order backlog into 2H23E and the recent strong order from domestic auto semi players will also boost growth in 2H23/FY24E. Trading at 8.0x/6.0x FY23/24E P/E, we think risk-reward is attractive. Maintain BUY with TP HK\$7.54 (12x FY23E P/E). Upcoming catalysts include rising ADAS penetration and NEV client share gain.

- **Positive 2H23 outlook and solid order backlog; Overseas expansion as next growth driver.** Mgmt. expected solid order backlogs to continue into 2H23E, despite recent softer auto sales and easing shortage of auto semi products. Riding on fast-growing export sales from major domestic customers, mgmt. expected overseas market expansion will become the key growth driver in FY24/25E, and Intron will establish a new R&D center in Hong Kong in 2H23E to accelerate overseas expansion. In addition, Intron added 200+ engineers to reach 916 R&D staffs in 2022, and it will continue to hire R&D talents in FY23E to meet strong demand from clients.
- **Expect price cut and de-spec pressure to ease in 2H23E.** Mgmt. expects price competition and de-spec trend from downstream auto OEMs to start easing in 2H23E and domestic NEV demand will remain solid. With cost-efficient pricing strategy and established technology solutions with economies of scale, we believe Intron's light-asset R&D-focused business model will best serve auto OEMs/Tier-1 clients to adopt latest auto semi solutions from global and domestic chip suppliers amid intensified competition.
- **Attractive risk/reward with 34% EPS CAGR and 25% ROE.** We reiterate BUY rating with TP of HK\$7.54 based on 12x FY23E P/E (24% below 5-year hist. avg.), which we think is justified by 34% FY22-25E earnings CAGR. Trading at 8.0x/6.0x FY23/24E P/E, we think the stock is extremely undervalued compared with A/H-listed peers. Upcoming catalysts include favourable NEV policy, rising ADAS penetration and share gain in NEV clients.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	3,176	4,830	6,879	9,086	11,445
YoY growth (%)	59.4	52.1	42.4	32.1	26.0
Net profit (RMB mn)	200.6	415.0	600.5	799.0	999.2
YoY growth (%)	111.6	106.9	44.7	33.1	25.1
EPS (Reported) (RMB)	0.19	0.38	0.55	0.73	0.91
Consensus EPS (RMB)	na	na	0.55	0.69	0.81
P/E (x)	22.7	10.2	8.0	6.0	4.8
P/B (x)	2.6	2.0	1.9	1.5	1.3
Yield (%)	1.6	3.4	3.7	5.0	6.2
ROE (%)	13.2	21.3	25.4	28.0	28.6

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **HK\$7.54**
(Previous TP) HK\$7.54
Up/Downside **49.3%**
Current Price **HK\$5.05**

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Stock Data

Mkt Cap (HK\$ mn)	5,222.1
Avg 3 mths t/o (HK\$ mn)	5.6
52w High/Low (HK\$)	7.19/3.26
Total Issued Shares (mn)	1085.7

Source: FactSet

Shareholding Structure

Magnate Era Ltd	48.3%
Luk Wing Ming	6.9%

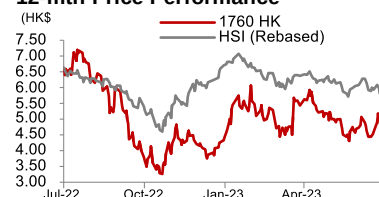
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	2.6%	7.6%
3-mth	-11.4%	-2.5%
6-mth	8.6%	25.3%

Source: FactSet

12-mth Price Performance



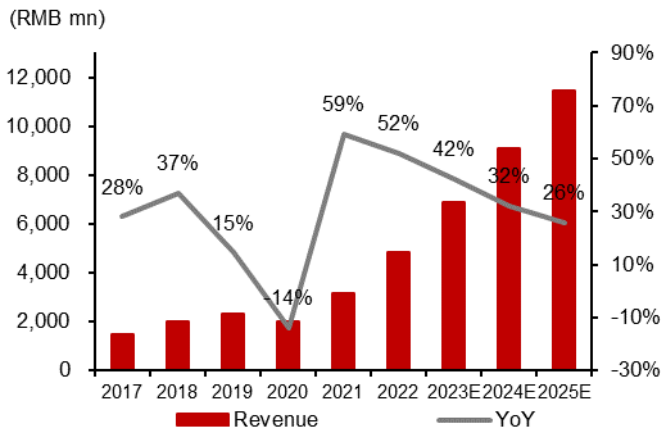
Source: FactSet

Related reports:

1. Intron Tech (1760 HK) – Beneficiary of automotive megatrends in electrification and intelligence ([link](#))

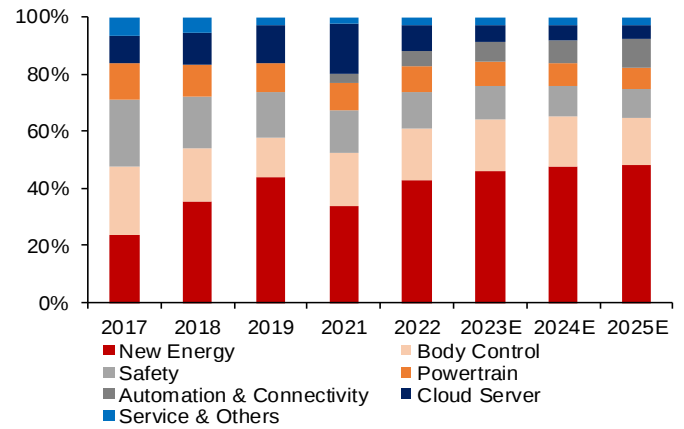
Focus Charts

Figure 1: Intron's revenue forecast



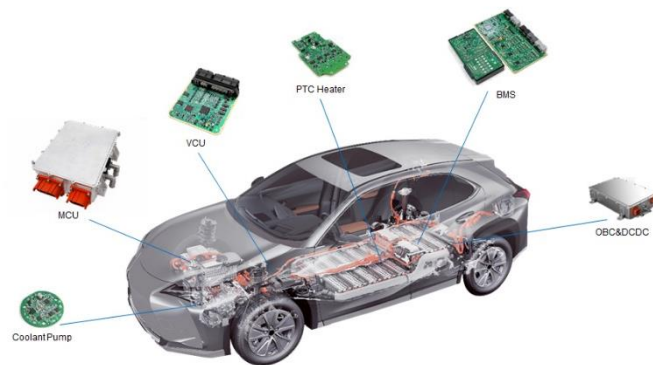
Source: Company data, CMBIGM estimates

Figure 2: Intron's revenue breakdown



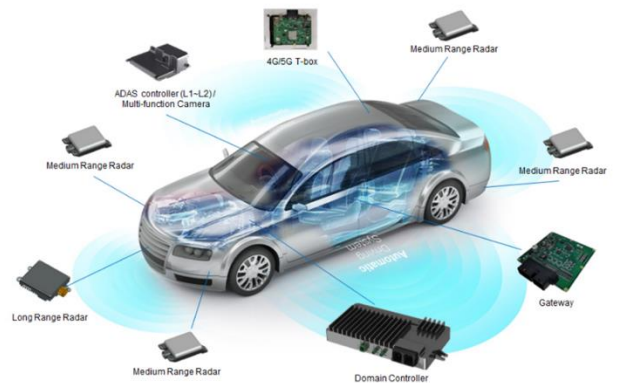
Source: Company data, CMBIGM estimates

Figure 3: Intron's new energy vehicle solutions



Source: Company data, CMBIGM estimates

Figure 4: Intron's intelligent vehicle solutions



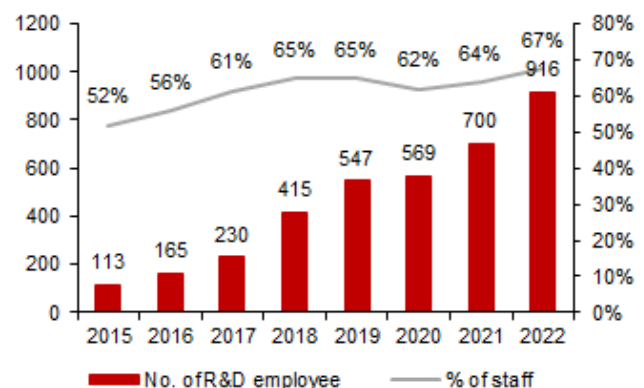
Source: Company data, CMBIGM estimates

Figure 5: Intron's extensive client/supplier portfolio



Source: Company data, CMBIGM estimates

Figure 6: Intron's number of R&D employee



Source: Company data, CMBIGM estimates

Earnings Forecasts

Figure 7: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	6,879	9,086	11,445	6,883	9,181	11,438	0%	-1%	0%
Gross profit	1,456	1,898	2,356	1,437	1,889	2,313	1%	0%	2%
Net profit	600	799	999	593	751	886	1%	6%	13%
EPS (RMB)	0.55	0.73	0.91	0.55	0.69	0.81	0%	6%	12%
Gross margin	21.2%	20.9%	20.6%	20.9%	20.6%	20.2%	0.3 ppt	0.3 ppt	0.4 ppt
Net Margin	8.7%	8.8%	8.7%	8.6%	8.2%	7.7%	0.1 ppt	0.6 ppt	1 ppt

Source: Bloomberg, CMBIGM estimates

Figure 8: Revenue breakdown by segment

RMB mn	2020	2021	2022	2023E	2024E	2025E
New Energy	467	1,082	2,067	3,178	4,352	5,491
... YoY	-53.8%	131.6%	91.0%	53.8%	36.9%	26.2%
Body Control	422	579	868	1,215	1,549	1,882
... YoY	32.6%	37.1%	50.0%	40.0%	27.5%	21.5%
Safety	491	476*	636*	807	979	1,174
... YoY	31.2%	-2.9%	33.5%	26.9%	21.3%	20.0%
Powertrain	244	309	432	583	718	861
... YoY	6.1%	26.6%	39.9%	35.0%	23.1%	20.0%
Automation & Connectivity	-	101*	255*	501	758	1,137
... YoY	-	-	151.3%	96.8%	51.1%	50.0%
Cloud Server	303	550	420	384	461	553
... YoY	-2.5%	81.5%	-23.5%	-8.6%	20.0%	20.0%
Service & Others	67	79	152	210	269	346
... YoY	2.8%	19.1%	91.8%	38.1%	28.4%	28.4%
Revenue	1,993	3,176	4,830	6,879	9,086	11,445
... YoY	-13.7%	59.4%	52.1%	42.4%	32.1%	26.0%

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

Figure 9: P&L forecast

RMB mn	2020	2021	2022	2023E	2024E	2025E
Revenue	1,993	3,176	4,830	6,879	9,086	11,445
...YoY	-13.7%	59.4%	52.1%	42.4%	32.1%	26.0%
Cost of sales	-1,635	-2,551	-3,789	-5,423	-7,188	-9,089
Gross profit	358	625	1,041	1,456	1,898	2,356
GPM (%)	18.0%	19.7%	21.5%	21.2%	20.9%	20.6%
...YoY	-23.1%	74.5%	66.4%	39.9%	30.3%	24.2%
S&M	(68)	(101)	(106)	(144)	(182)	(229)
...% of rev	-3.4%	-3.2%	-2.2%	-2.1%	-2.0%	-2.0%
R&D	(134)	(206)	(332)	(468)	(618)	(778)
...% of rev	-6.7%	-6.5%	-6.9%	-6.8%	-6.8%	-6.8%
Admin	(85)	(107)	(95)	(117)	(145)	(172)
...% of rev	-4.2%	-3.4%	-2.0%	-1.7%	-1.6%	-1.5%
Pre-tax profit	98	217	455	671	896	1,121
Pre-tax profit margin (%)	4.9%	6.8%	9.4%	9.7%	9.9%	9.8%
...YoY	-23.5%	120.9%	109.9%	47.4%	33.7%	25.1%
Net profit	95	201	415	600	799	999
NPM (%)	4.8%	6.3%	8.6%	8.7%	8.8%	8.7%
...YoY	-20.1%	111.6%	106.9%	44.7%	33.1%	25.1%

Source: Company data, CMBIGM estimates

Valuation

Maintain BUY with TP of HK\$7.54

Our TP of HK\$7.54 is based on 12x FY23E 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 34% earnings CAGR over 2022-25E and 39%/65% sales CAGR in New Energy and Automation & Connectivity segments.

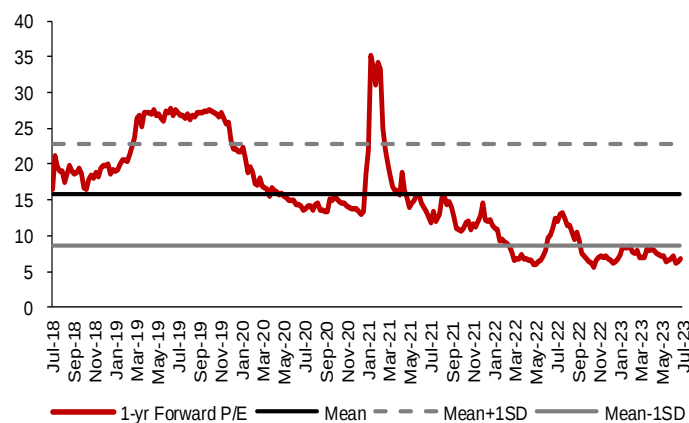
Intron now trades at 8.0x/6.0x FY23/24E P/E, vs 29.5x/21.8x FY23/24E P/E for A/H-listed automobile components/solutions peers, which we think is highly undervalued, especially considering Intron's high ROE level. Upcoming catalysts include potential favourable NEV policy, rising ADAS/AD penetration, share gain in NEV customers and product launches.

Figure 10: 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	702	5.05	7.5	49%	8.0	6.0	1.9	1.5	25.4	28.0
BOE Varitronix	710 HK	BUY	1,266	12.52	23.7	89%	13.2	10.3	1.0	0.9	7.9	8.4
BYD Electronics	285 HK	HOLD	7,153	24.85	24.5	-1%	17.0	13.9	1.8	1.6	10.4	11.4
Sunny Optical	2382 HK	HOLD	10,537	75.20	86.8	15%	22.9	19.8	3.1	2.8	13.4	14.1
Luxshare	002475 CH	BUY	32,918	33.24	48.0	44%	22.0	17.9	2.3	2.0	10.5	11.4
Desay SV	002920 CH	NR	13,291	172.41	NA	NA	60.0	43.9	12.2	10.0	21.3	24.1
Foryou Corp	002906 CH	NR	2,517	38.06	NA	NA	35.1	26.4	3.9	3.5	10.9	13.0
Joyson	600699 CH	NR	3,776	19.88	NA	NA	30.6	20.9	2.1	2.0	7.0	9.6
Deren electron	002055 CH	NR	869	10.35	NA	NA	19.3	10.6	1.9	1.6	9.4	14.7
Jingwei Hirain	688326 CH	NR	2,966	178.02	NA	NA	66.4	47.7	3.8	3.5	5.8	9.1
Average							29.5	21.8	3.4	2.9	12.0	14.1

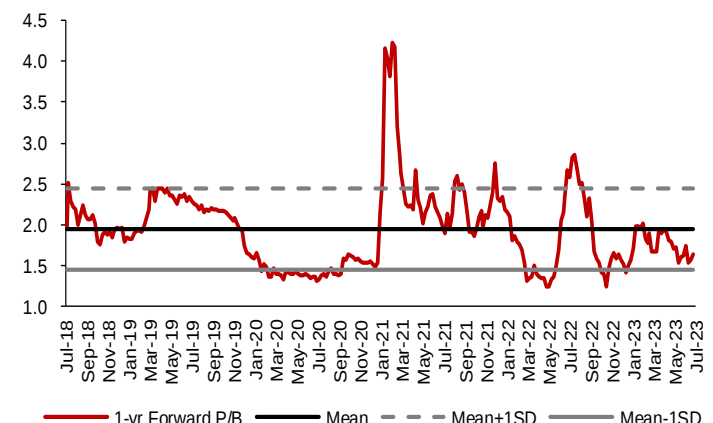
Source: Bloomberg, CMBIGM estimates

Figure 11: 12M forward P/E band



Source: Bloomberg, CMBIGM estimates

Figure 12: 12M forward P/B band



Source: Bloomberg, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	1,993	3,176	4,830	6,879	9,086	11,445
Cost of goods sold	(1,635)	(2,551)	(3,789)	(5,423)	(7,188)	(9,089)
Gross profit	358	625	1,041	1,456	1,898	2,356
Selling expense	(68)	(101)	(106)	(144)	(182)	(229)
Admin expense	(218)	(313)	(427)	(585)	(763)	(950)
Other income	49	30	40	36	36	36
Other expense	(2)	(2)	(50)	(50)	(50)	(50)
Share of (losses)/profits of associates/JV	(1)	1	2	2	2	2
Net Interest income/(expense)	(20)	(24)	(45)	(45)	(45)	(45)
Pre-tax profit	98	217	455	671	896	1,121
Income tax	(3)	(17)	(44)	(64)	(90)	(112)
After tax profit	95	200	411	606	807	1,009
Minority interest	0	(0)	(4)	(6)	(8)	(9)
Net profit	95	201	415	600	799	999
Gross dividends	28	60	126	180	240	300

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	1,695	2,294	3,351	3,884	4,526	5,371
Cash & equivalents	388	572	337	446	229	178
Account receivables	783	1,163	1,698	2,124	2,535	3,187
Inventories	447	498	1,086	1,084	1,530	1,775
Prepayment	40	27	182	182	182	182
ST bank deposits	36	32	49	49	49	49
Financial assets at FVTPL	0	0	0	0	0	0
Other current assets	0	0	0	0	0	0
Contract assets	1	1	0	0	0	0
Non-current assets	360	565	724	767	806	841
PP&E	154	170	195	222	248	264
Right-of-use assets	23	33	33	43	50	62
Deferred income tax	24	42	54	54	54	54
Intangibles	126	224	325	331	338	345
Financial assets at FVTPL	15	76	85	85	85	85
Other non-current assets	18	20	32	32	32	32
Total assets	2,054	2,859	4,075	4,651	5,332	6,212
Current liabilities	747	1,097	1,907	2,057	2,171	2,342
Short-term borrowings	433	632	950	950	950	950
Account payables	74	237	331	481	595	766
Tax payable	6	18	27	27	27	27
Other current liabilities	0	1	1	1	1	1
Lease liabilities	12	15	20	20	20	20
Accrued expenses	221	194	578	578	578	578
Non-current liabilities	16	19	20	20	20	20
Long-term borrowings	0	0	0	0	0	0
Other non-current liabilities	16	19	20	20	20	20
Share capital	9	9	9	9	9	9
Other reserves	1,283	1,733	2,129	2,555	3,122	3,831
Total shareholders equity	1,292	1,743	2,149	2,575	3,142	3,850
Minority interest	0	1	11	11	11	11
Total equity and liabilities	2,054	2,859	4,075	4,651	5,332	6,212

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	98	217	455	671	896	1,121
Depreciation & amortization	49	60	90	109	121	130
Tax paid	(21)	(22)	(35)	(64)	(90)	(112)
Change in working capital	2	(285)	(643)	(274)	(745)	(725)
Others	6	16	0	0	0	0
Net cash from operations	134	(15)	(134)	442	183	414
Investing						
Capital expenditure	(137)	(159)	(216)	(152)	(160)	(165)
Acquisition of subsidiaries/ investments	0	0	0	0	0	0
Net proceeds from disposal of short-term investments	1	0	0	0	0	0
Others	(20)	(64)	0	0	0	0
Net cash from investing	(156)	(222)	(216)	(152)	(160)	(165)
Financing						
Dividend paid	(36)	(29)	(126)	(180)	(240)	(300)
Net borrowings	(0)	208	0	0	0	0
Proceeds from share issues	0	253	0	0	0	0
Others	(18)	(4)	0	0	0	0
Net cash from financing	(54)	428	(126)	(180)	(240)	(300)
Net change in cash						
Cash at the beginning of the year	497	388	572	337	446	229
Exchange difference	(33)	(8)	0	0	0	0
Cash at the end of the year	388	572	337	446	229	178
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	(13.7%)	59.4%	52.1%	42.4%	32.1%	26.0%
Gross profit	(23.1%)	74.5%	66.4%	39.9%	30.3%	24.2%
Net profit	(20.1%)	111.6%	106.9%	44.7%	33.1%	25.1%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	18.0%	19.7%	21.5%	21.2%	20.9%	20.6%
Return on equity (ROE)	7.5%	13.2%	21.3%	25.4%	28.0%	28.6%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Current ratio (x)	2.3	2.1	1.8	1.9	2.1	2.3
Receivable turnover days	143.8	111.8	108.1	101.4	93.6	91.3
Inventory turnover days	118.8	67.6	76.3	73.0	66.4	66.4
Payable turnover days	27.3	22.3	27.3	27.3	27.3	27.3
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	23.8	22.7	10.2	8.0	6.0	4.8
P/E (diluted)	23.8	23.1	10.3	8.1	6.1	4.9
P/B	1.7	2.6	2.0	1.9	1.5	1.3
Div yield (%)	1.5	1.6	3.4	3.7	5.0	6.2

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

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