

EVA Holdings (838 HK)

Poised to grow faster in FY25-26E

Maintain BUY. We believe that EVA is well positioned for higher growth in revenue and profit in the next two years, aided by more higher-margin tier-1 business in both China and Mexico, new businesses including AI server control box components and robot assembly, as well as improving operational efficiency. EVA's current dividend yield is about 5.4%.

■ **On track to tier-1 transformation.** EVA's auto component revenue rose 4% YoY to HK\$1,955mn in FY24, with its tier-1 business making up about 40%. More than 60% of its current order backlog is from tier-1 business. Revenue from Great Wall Motor (2333 HK/601633 CH, BUY) rose 24% YoY to HK\$420mn in FY24. It is the 2nd largest client for EVA's auto components business after Faurecia now. We project revenue from Great Wall to rise by HK\$80mn YoY in FY25E. The largest auto components revenue increase could come from Changan (000625 CH, NR) in FY25E, based on its current order backlog of more than HK\$1bn. We expect revenue from Changan to rise by HK\$180mn in FY25E. Accordingly, we project auto components revenue in FY25E to rise 12% YoY, driven by tier-1 business.

■ **Mexico plant may benefit from more tier-1 business and the current tariffs.** Revenue from Mexico rose 9% YoY to HK\$927mn in FY24 and the plant continued to be profitable for two years in a row. We are of the view that its Mexico plant needs more tier-1 business in order to be more profitable, although Faurecia has already raised prices since FY23. In fact, EVA has been laying the foundation for such transformation, in our opinion. Stellantis (STLA US, NR) may start to contribute revenue in Mexico from FY25E with higher margins. EVA's auto components supplied to Tesla are likely to expand from front seat frames to chassis and body parts from FY26E.

It appears to us that the Trump Administration's current tariff policies could benefit auto parts plants in Mexico given the new tariff exemption now. In the base scenario, EVA is at least not worse off with the current US-Mexico-Canada Agreement, in our view.

■ **Improving operational efficiency.** Although EVA's transition to a tier-1 supplier has not been fully reflected in its revenue and net profit yet, its operational efficiency has been improved, in our view. Gross margin in FY24 widened by 0.9ppts YoY to 21.8%. We estimate that gross margin for auto components widened by 0.4ppts to 21% in FY24. Net debt narrowed from HK\$755mn in FY23 to HK\$472mn in FY24. The 5% YoY decline in operating profit mainly came from higher R&D expenses, depreciation and amortization expenses, as well as forex losses. Its cash conversion days also improved from 44 days in FY23 to 40 days in FY24.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24A	FY25E	FY26E
Revenue (HK\$ mn)	6,268	6,183	6,297	6,618	6,970
YoY growth (%)	22.7	(1.4)	1.8	5.1	5.3
Net profit (HK\$ mn)	206.0	237.1	243.5	277.8	321.8
YoY growth (%)	32.8	15.1	2.7	14.1	15.8
EPS (Reported) (HK\$)	0.12	0.14	0.14	0.16	0.19
P/E (x)	6.6	5.7	5.6	4.8	4.2
P/B (x)	0.5	0.5	0.4	0.4	0.4
Yield (%)	4.5	5.2	5.4	6.2	7.7
ROE (%)	7.3	8.1	7.9	8.6	9.3

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price HK\$1.30
Up/Downside 66.7%
Current Price HK\$0.78

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Stock Data

Mkt Cap (HK\$ mn)	1,357.9
Avg 3 mths t/o (HK\$ mn)	2.9
52w High/Low (HK\$)	0.86/0.60
Total Issued Shares (mn)	1740.9

Source: FactSet

Shareholding Structure

Zhang Hwo Jie's Family	42.0%
Others	58.0%

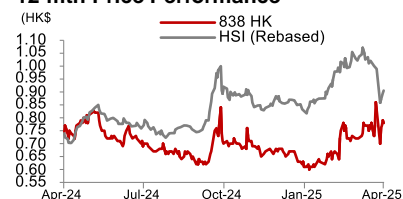
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	8.3%	23.2%
3-mth	27.9%	16.6%
6-mth	11.4%	13.2%

Source: FactSet

12-mth Price Performance



Source: FactSet

Related Report

["EVA Holdings \(838 HK\) - 2H24 preview: both revenue, NP stable HoH"- 3 Feb 2025](#)

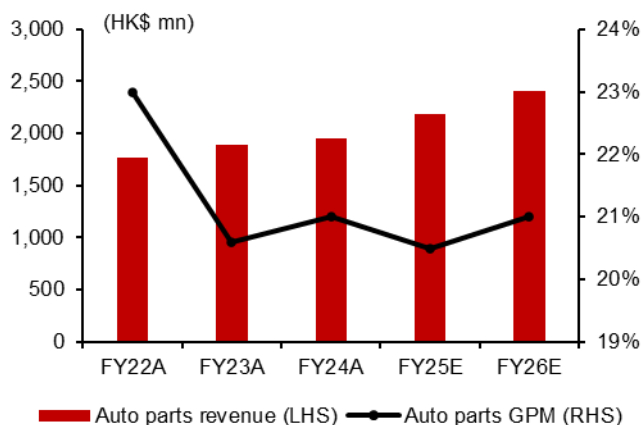
- **New businesses to support future growth: server control box and robot assembly.** Revenue from server control box and case components (under the office automation (OA) segment now) reached HK\$275mn in FY24, according to management. Huawei and xFusion are EVA's largest clients now, combined accounting for more than 90% of the segment's FY24 revenue. Management expects such revenue to exceed HK\$400mn in FY25E with net profit doubling YoY, as it has become Huawei's major supplier of server structural parts, with possibly significant market share increase. EVA is currently involved in the mould development and parts production, which probably has a revenue potential of HK\$1bn in China. In the medium-to long-term, EVA could expand its business into design and production of other parts of servers, which could lift its revenue potential a few times higher. With its production base in Mexico, EVA could also explore such business in North America.

EVA has also started humanoid robot arm assembly from this year in order to tap into the potential robot boom. We expect revenue and profit contribution to be significant from FY26E.

- **Earnings/Valuation.** We project EVA's auto components revenue to rise 12% YoY to HK\$2.2bn in FY25E, driven by Great Wall and Changan. We project its OA revenue to rise 2% YoY to HK\$4.4bn, aided by the server control box business. We take a conservative approach in EVA's gross margin forecast (21.5% in FY25E vs. 21.8% in FY24) to account for possibly higher initial costs for new businesses and customers. We project EVA's operating profit to surge 16% YoY to HK\$432mn in FY25E. We also lower our finance cost forecast to HK\$104mn in FY25E with lowered debt level. Accordingly, we estimate its FY25E net profit to rise 14% YoY to HK\$278mn, taking a possibly higher tax rate into consideration. We project its FY26E net profit to rise 16% YoY to HK\$322mn, as new businesses and customers start to contribute more significant revenue and profit.

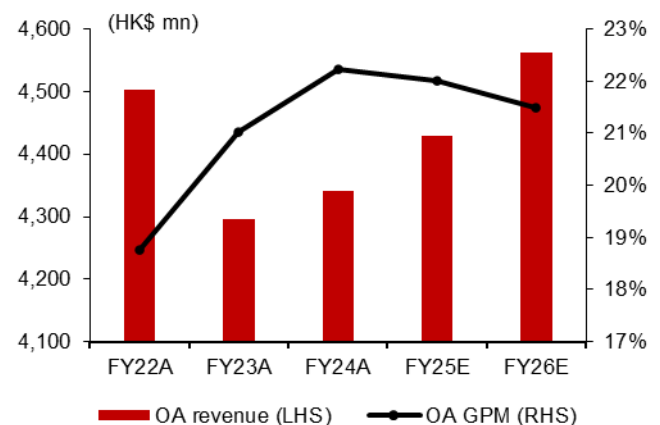
We maintain our BUY rating and target price of HK\$1.30, based on the sum-of-the-parts (SOTP) valuation (details in Figure 6). We value its auto components business at HK\$0.45 (unchanged) per share, still based on 11x our revised FY25E P/E. We value its OA business at HK\$0.85 (unchanged) per share, still based on 7x our FY25E P/E. Key risks to our rating and target price include lower order intake from new businesses and lower gross margin 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: Interim results

RMB mn	1H22	2H22	1H23	2H23	1H24	2H24	YoY	HoH
Revenue	2,940	3,328	2,862	3,321	3,000	3,297	-0.7%	9.9%
Gross profit	565	686	545	747	603	773	3.5%	28.3%
Selling expenses	(124)	(245)	(125)	(201)	(117)	(202)	0.4%	72.6%
Admin expenses	(333)	(282)	(289)	(372)	(304)	(388)	4.4%	27.5%
Operating profit	121	152	189	202	196	183	-9.4%	-6.7%
Net profit	103	103	123	114	128	122	6.4%	-4.7%
Operating margin	19.2%	20.6%	19.0%	22.5%	20.1%	23.4%	1.0 pts	3.4 pts
Net margin	4.1%	4.6%	6.6%	6.1%	6.5%	5.5%	-0.5 pts	-1.0 pts
Revenue	3.5%	3.1%	4.3%	3.4%	4.3%	3.7%	0.2 pts	-0.6 pts

Source: Company data, CMBIGM estimate

Figure 4: Earnings revision

RMB mn	FY24A	New FY25E	FY26E	FY24E	Old FY25E	FY26E	FY24E	Diff (%) FY25E	FY26E
Revenue	6,297	6,618	6,970	6,358	6,687	7,046	-1.0%	-1.0%	-1.1%
Gross profit	1,376	1,423	1,487	1,334	1,416	1,485	3.1%	0.5%	0.1%
Operating profit	373	432	474	372	445	472	0.2%	-2.9%	0.5%
Net profit	244	278	322	244	289	322	-0.2%	-3.9%	-0.1%
Gross margin	21.8%	21.5%	21.3%	21.0%	21.2%	21.1%	0.9 pts	0.3 pts	0.3 pts
Operating margin	5.9%	6.5%	6.8%	5.9%	6.7%	6.7%	0.1 pts	-0.1 pts	0.1 pts
Net margin	3.9%	4.2%	4.6%	3.8%	4.3%	4.6%	0.0 pts	-0.1 pts	0.0 pts

Source: CMBIGM estimates

Figure 5: CMBI estimates vs consensus

RMB mn	FY24A	CMBIGM FY25E	FY26E	FY24E	Consensus FY25E	FY26E	FY24E	Diff (%) FY25E	FY26E
Revenue	6,297	6,618	6,970	6,358	6,687	7,046	-1.0%	-1.0%	-1.1%
Gross profit	1,376	1,423	1,487	1,334	1,416	1,485	3.1%	0.5%	0.1%
Operating profit	373	432	474	372	445	472	0.2%	-2.9%	0.5%
Net profit	244	278	322	244	289	322	-0.2%	-3.9%	-0.1%
Gross margin	21.8%	21.5%	21.3%	21.0%	21.2%	21.1%	0.9 pts	0.3 pts	0.3 pts
Operating margin	5.9%	6.5%	6.8%	5.9%	6.7%	6.7%	0.1 pts	-0.1 pts	0.1 pts
Net margin	3.9%	4.2%	4.6%	3.8%	4.3%	4.6%	0.0 pts	-0.1 pts	0.0 pts

Source: Bloomberg, CMBIGM estimates

Figure 6: SOTP valuation

Segment	FY25E Net profit (HK\$ mn)	Target P/E Multiple	Target Market Cap (HK\$ mn)	Target Price (HK\$)
Auto components	70	11x	780	0.45
Office automation	208	7x	1,483	0.85
SOTP			2,263	1.30

Source: CMBIGM estimates

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024A	2025E	2026E
YE 31 Dec (HK\$ mn)						
Revenue	5,109	6,268	6,183	6,297	6,618	6,970
Cost of goods sold	(4,096)	(5,017)	(4,891)	(4,921)	(5,195)	(5,484)
Gross profit	1,013	1,251	1,292	1,376	1,423	1,487
Operating expenses	(789)	(962)	(938)	(969)	(998)	(1,026)
Selling expense	(315)	(369)	(326)	(319)	(328)	(336)
Admin expense	(506)	(615)	(661)	(693)	(717)	(744)
Others	32	22	49	42	47	54
Operating profit	224	289	354	406	425	461
Gain/loss on financial assets at FVTPL	(24)	(8)	0	0	0	0
Other gains/(losses)	(5)	(8)	37	(27)	7	19
Share of (losses)/profits of associates/JV	0	(0)	(0)	(8)	(1)	(1)
EBITDA	483	556	709	702	785	848
Depreciation	241	229	243	274	290	312
Depreciation of ROU assets	33	42	31	30	32	33
Other amortisation	2	2	2	1	1	1
EBIT	208	283	433	398	463	502
Interest income	13	10	42	32	31	29
Interest expense	(28)	(53)	(129)	(121)	(104)	(84)
Pre-tax profit	180	231	304	276	358	418
Income tax	(25)	(25)	(67)	(33)	(81)	(96)
After tax profit	155	206	237	244	278	322
Minority interest	0	0	0	0	0	0
Net profit	155	206	237	244	278	322
Gross dividends	47	61	71	73	83	103

BALANCE SHEET	2021A	2022A	2023A	2024A	2025E	2026E
YE 31 Dec (HK\$ mn)						
Current assets	3,642	4,297	4,319	4,312	4,356	4,518
Cash & equivalents	1,318	1,722	1,611	1,739	1,577	1,599
Account receivables	1,382	1,681	1,820	1,794	1,886	1,967
Inventories	688	639	641	640	655	691
Prepayment	150	146	143	65	139	146
ST bank deposits	103	109	104	74	100	115
Non-current assets	2,932	2,960	3,122	3,163	3,181	3,170
PP&E	2,418	2,454	2,682	2,681	2,726	2,734
Right-of-use assets	384	378	294	335	317	294
Deferred income tax	7	7	5	4	4	4
Investment in JVs & assos	35	31	30	21	20	19
Intangibles	8	6	4	3	3	3
Other non-current assets	81	86	107	119	110	115
Total assets	6,574	7,257	7,440	7,475	7,537	7,688
Current liabilities	3,226	2,859	3,040	2,812	2,881	2,806
Short-term borrowings	1,448	966	1,149	848	883	709
Account payables	1,373	1,490	1,492	1,510	1,580	1,668
Other current liabilities	307	261	287	301	305	321
Lease liabilities	31	44	15	21	20	18
Contract liabilities	68	99	96	132	93	91
Non-current liabilities	559	1,559	1,403	1,521	1,318	1,312
Long-term borrowings	460	1,460	1,321	1,437	1,237	1,237
Other non-current liabilities	99	99	82	84	81	76
Total liabilities	3,785	4,418	4,442	4,333	4,198	4,119
Share capital	175	174	174	174	172	172
Other reserves	2,614	2,664	2,824	2,968	3,166	3,397
Total shareholders equity	2,788	2,838	2,998	3,142	3,339	3,569
Total equity and liabilities	6,574	7,257	7,440	7,475	7,537	7,688

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (HK\$ mn)						
Operating						
Profit before taxation	180	231	304	276	358	418
Depreciation & amortization	276	272	276	305	323	346
Tax paid	(10)	(26)	(53)	(33)	(81)	(96)
Change in working capital	(213)	(134)	(139)	165	(134)	(29)
Others	27	30	(13)	145	113	96
Net cash from operations	259	372	375	858	580	735
Investing						
Capital expenditure	(368)	(339)	(401)	(290)	(361)	(351)
Acquisition of subsidiaries/ investments	(4)	(14)	0	0	0	0
Net proceeds from disposal of short-term investments	14	0	9	0	0	0
Others	22	7	(32)	32	(9)	5
Net cash from investing	(337)	(346)	(424)	(258)	(370)	(347)
Financing						
Dividend paid	(21)	(57)	(67)	(73)	(68)	(91)
Net borrowings	6	518	35	(119)	(266)	(255)
Share repurchases	0	(11)	0	0	(15)	0
Others	(3)	(35)	(24)	(22)	(22)	(20)
Net cash from financing	(18)	415	(56)	(213)	(371)	(366)
Net change in cash						
Cash at the beginning of the year	1,406	1,318	1,722	1,611	1,739	1,577
Exchange difference	9	(37)	(7)	0	0	0
Cash at the end of the year	1,318	1,722	1,611	1,997	1,577	1,599

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

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