

Overweight

(Maintained)

New Energy

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New Infrastructure, New Cycle, Charging Piles Get Ready

New infrastructure opens a brand-new cycle of charging piles.

As a crucial part of new infrastructure, the charging pile industry is expected to accelerate growth. The inventory of China's public charging piles for new energy vehicles (NEVs) in 2019 was 513,000 pieces, showing a relatively huge gap compared with 3.81 million NEVs. The large-scale relaunch of charging station construction will lay a solid foundation of China's NEV development, promoting the NEV industry to continue a rapid growth.

With the improvements in industry concentration, State Grid Corporation of China will dominate this round of construction.

As the bids, construction and operation of the charging pile industry are relatively disperse, the industry landscape is undergoing adjustments. Until now, State Grid Corporation of China contributed less than 20% to the total bids on charging piles, showing low construction efficiency and disunity in standards.

This round large-scale construction of charging piles is likely to be dominated by the state-owned electric utility monopoly and complete within 2 years. Based on our hypothesis, this will push the overall investment up as much as CNY 130bln, benefiting the leading players in the first place.

As the chaotic investments are ruled out, the gross profit rate picks up gradually.

Owing to the massively disordered construction in the previous years, the profit rates of the charging pile construction and operation were relatively low, posing a gloomy investment returns and leaving a huge number of bad debts.

The charging pile investments will be more rational and orderly under the domination of State Grid, which will greatly improve efficiency. Meantime, as the prices become more transparent, enterprises will far more likely to take a part. At present, the gross profit rate of charging pile production gradually recovers to 18%, a significant improvement from 2016-2017; with the decreasing bad debt ratio, the industry has got a sound and fast growth foundation.

The synergy effect of charging piles and NEV will facilitate the upward momentum.

As charging station serves as a crucial foundation of NEV industry development, its long-term lag will definitely hinder NEV development. After it is confirmed as an important constituent of new infrastructure, the construction of charging stations will accelerate. The present vehicle/station ratio is 6:1, roughly 2 million pieces are needed, according to the planning of National Development and Reform Commission and Ministry of Communication.

Investment recommendation

As the industry landscape is basically adjusted, the investment in charging piles dominated by



State Grid is expected to enhance the overall growth and capacity. The enterprises getting State Grid bidding certifications will take the lead to benefit. We recommend to prioritize enterprises with independent and efficient charging module production capacities and charging service platforms. Recommend **NARI-TECH (600406.SH)**. Suggest eyeing on **TGOOD ELECTRIC (300001.SZ)**, **WANMA (002276.SZ)**, **TONHE TECH (300491.SZ)**, **EAST (300376.SZ)** and **HSDQ (300141.SZ)**.

Potential risks

less-than-expected investment in charging piles; less-than-expected investment from State Grid; less-than-expected sales volume of NEVs; unexpected policies on NEVs

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