

## Company Report: CRRC Times Electric (03898 HK)

公司报告: 中车时代电气 (03898 HK)

Gary Wong 黄家玮

(852) 2509 2616

gary.wong@gtjas.com.hk

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# 1Q-3Q2020 Results in Line, Maintain "Accumulate"

2020年1-3季度业绩符合预期, 维持“收集”

- CRRC Times Electric's (03898 HK, "CTE" or the "Company") 1Q-3Q2020 revenue increased 2.9% YoY to RMB9.9 billion. Shareholders' net profit decreased 0.4% YoY to RMB1.5 billion. Results were in line with expectation. Overall gross profit margin decreased by 0.7 ppts YoY to 38.2%. The selling expense ratio decreased 0.7 ppts YoY to 6.8%, administrative expenses ratio decreased 0.3 ppts YoY to 5.1%, R&D expense ratio increased 0.5 ppts YoY to 10.8%.
- We expect revenue to increase at a CAGR of 7.9% in 2019-2022. We expect revenue CAGR of 1.2% and 6.6% for railway equipment and urban railway equipment, respectively, in 2019-2022, revenue CAGR of 26.0% for new industry in 2019-2022, and gross margin to improve from 38.1% in 2020 to 38.7% in 2022.
- Our EPS estimates for 2020/ 2021/ 2022 are RMB2.294, RMB2.697 and RMB2.988, respectively. Due to upward revision of EPS estimates, we raise the TP to HK\$37.00, representing 11.3x/ 9.3x/ 8.0x 2020/ 2021/ 2022 EV/EBITDA, maintain "Accumulate".
- 中车时代电气 (03898 HK, “公司”) 2020 年 1-3 季度收入同比增 2.9%至 99 亿元 (人民币, 下同)。股东净利润同比降 0.4%至 15 亿元。业绩符合预期。整体毛利率同比下降 0.7 个百分点至 38.2%。销售费用率同比下降 0.7 个百分点至 6.8%。管理费用率同比下降 0.3 个百分点至 5.1%。研发费用率同比上升 0.5 个百分点至 10.8%。
- 我们预计 2019-2022 年收入将以 7.9%的年复合增长率增长。我们预计 2019-2022 年铁路设备业务及城轨设备的收入年复合增长率分别为 1.2%和 6.6%，预计新产业的收入在 2019-2022 年间以 26.0%的年复合增长率的速度增长，预计毛利率将从 2020 年的 38.1% 提高到 2022 年的 38.7%。
- 我们对 2020/ 2021/ 2022 年度的每股盈利预测分别为人民币 2.294/ 2.697/ 2.988 元。由于上调每股盈利预测，我们调高目标价至 37.00 港元，对应 11.3/ 9.3/ 8.0 倍的 2020/ 2021/ 2022 年 EV/EBITDA，维持“收集”评级。

Rating:

Accumulate

Maintained

评级:

收集 (维持)

6-18m TP 目标价:

HK\$37.00

Revised from 原目标价:

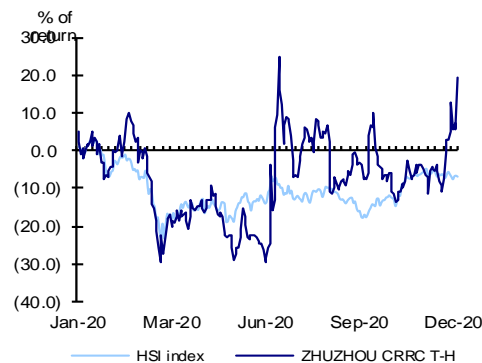
HK\$30.50

Share price 股价:

HK\$33.800

### Stock performance

股价表现



Change in Share Price	1 M	3 M	1 Y
股价变动	1 个月	3 个月	1 年
Abs. %			
绝对变动 %	38.5	30.5	19.9
Rel. % to HS Index			
相对恒指变动 %	35.1	14.4	23.3
Avg. Share price(HK\$)			
平均股价 (港元)	28.2	26.8	25.7

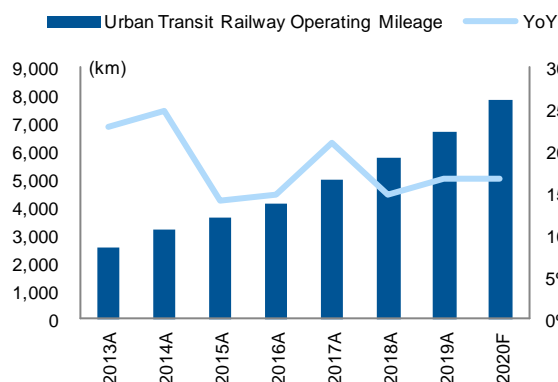
Source: Bloomberg, Guotai Junan International.

Year End	Turnover	Net Profit	EPS	EPS	PER	BPS	PBR	DPS	Yield	ROE
年结	收入	股东净利	每股净利	每股净利变动	市盈率	每股净资产	市净率	每股股息	股息率	净资产收益
12/31	(RMB m)	(RMB m)	(RMB)	(△%)	(x)	(RMB)	(x)	(RMB)	(%)	(%)
2018A	15,658	2,612	2.222	3.5	13.4	16.865	1.8	0.450	1.5	13.9
2019A	16,304	2,659	2.262	1.8	13.4	18.639	1.6	0.450	1.5	12.7
2020F	17,436	2,697	2.294	1.4	12.5	20.483	1.4	0.450	1.6	11.7
2021F	18,777	3,170	2.697	17.6	10.6	22.730	1.3	0.450	1.6	12.5
2022F	20,510	3,512	2.988	10.8	9.6	25.268	1.1	0.450	1.6	12.5
Shares in issue (m) 总股数 (m)				1,175.5	Major shareholder 大股东				CRRC Corporation 50.2%	
Market cap. (HK\$ m) 市值 (HK\$ m)				39,731.9	Free float (%) 自由流通比率 (%)				49.8	
3 month average vol. 3 个月平均成交股数 ('000)				5,448.0	FY20 Net gearing (%) FY20 净负债/股东资金 (%)				Net Cash	
52 Weeks high/low (HK\$) 52 周高/低 (HK\$)				36.000 / 19.200	FY20 Est. NAV (HK\$) FY20 每股估值 (港元)				42.5	

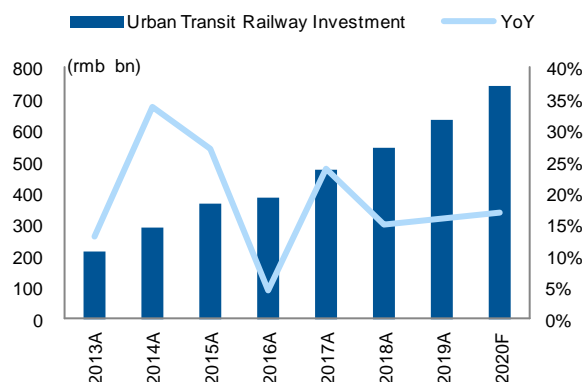
Source: the Company, Guotai Junan International.

**1Q-3Q2020 shareholders' net profit decreased 0.4% YoY to RMB1.5 billion. Results were in line with expectation.** CRRC Times Electric's (03898 HK, "CTE" or the "Company") 1Q-3Q2020 revenue increased 2.9% YoY to RMB9.9 billion. Shareholders' net profit decreased 0.4% YoY to RMB1.5 billion. Results were in line with expectation. Overall gross profit margin decreased by 0.7 pts YoY to 38.2%. The selling expense ratio decreased 0.7 pts YoY to 6.8% due to reduction in selling activities, administrative expenses ratio decreased 0.3 pts YoY to 5.1%, and R&D expense ratio increased 0.5 pts YoY to 10.8% due to increased spending in R&D activities.

**We expect total revenue to increase at a CAGR of 7.9% in 2019-2022.** 1Q-3Q2020 revenue increased only 2.9% YoY to RMB9.9 billion, mainly due to delays in new biddings and delivery of railway equipment products due to the COVID-19 pandemic in 1H2020. From an industry perspective, we expect the government to maintain steady increase in railway spending, supported by "Outline of Building a Strong Country with Powerful Transportation System" (September 2019) and "Outline of the Advanced Railway Planning for a Strong Country in the New Era" (August 2020). We expect revenue CAGR of 1.2% and 6.6% for railway equipment and urban railway equipment, respectively, in 2019-2022. As for new industry, the Company completed only RMB4.6 million in investment of the total budgeted investment of RMB505 million for IGBT chip module production line (the "IGBT project"), while as at 30<sup>th</sup> June 2020, the Company completed RMB29.3 million in investment, or 5.8% of total. However, it's not likely the Company can complete the IGBT project by 2020 and started mass production of IGBT chips in 1H2021. We expect that any mass production will be delayed to 2H2021 or even 1H2022. Despite this, we expect demand for its power grid, new energy vehicles and wind power products to remain strong and expect revenue CAGR of 26.0% for new industry in 2019-2022. Overall, we expect total revenue to increase at a CAGR of 7.9% in 2019-2022.

**Figure 1: Urban Rail Transit Operating Mileage in China**


Source: Urban Rail Transit Association of PRC, Guotai Junan International.

**Figure 2: Urban Rail Transit Investment**


Source: National Bureau of Statistics of PRC, Guotai Junan International.

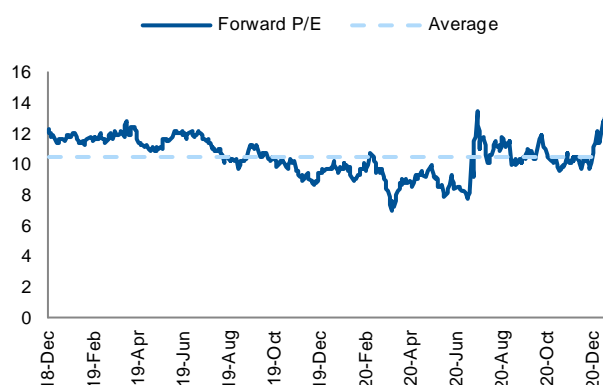
**We expect gross margin to improve from 38.1% in 2020 to 38.7% in 2022.** Gross margin dropped 0.7 pts to 38.2% in 1Q-3Q2020, mainly due to change in sales of product structure. Due to expected rebound in revenue contribution from higher gross margin railway equipment and urban railway equipment businesses starting 2021, and increase in internal use of the Company's self-manufactured IGBT units which lowered cost of production starting 2H2021 or 1H2022, we expect gross margin to gradually improve from 38.1% in 2020 to 38.7% in 2022.

**We expect selling expenses ratio and administrative expenses ratio to stay at approximately 6.7% and 15.0% in 2020-2022, respectively.** In 1Q-3Q2020, selling expenses ratio decreased 0.7 pts YoY to 6.8% due to reduction in selling activities with the outbreak of the COVID-19 pandemic, while administrative expenses (R&D expenses included) ratio increased 0.2 pts YoY to 15.9% due to increase in R&D spending. Going forward, we expect increase in selling expenses when selling activities increase can be offset by increase in revenue, while selling expenses can stay relatively stable at 6.7%. In addition, while general administrative expenses ratio (excluding R&D) is expected to drop due to its relatively fixed nature with revenue increases, it is likely to be offset by increase in R&D ratio due to continuous increase in spending in R&D activities, and total administrative expenses ratio is likely to stay stable at 15.0%.

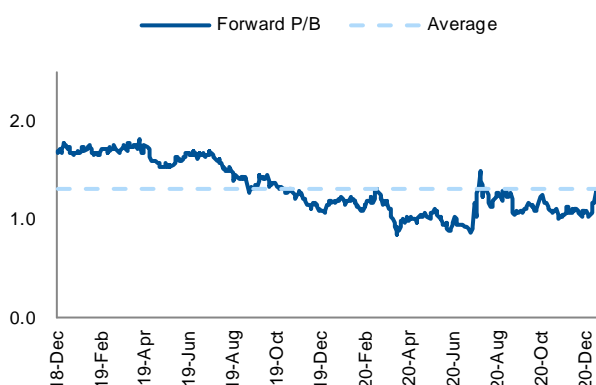
**We expect the Company to remain in net cash position in 2020-2022.** As at 30<sup>th</sup> September, 2020, the Company had a net cash position of RMB3.5 billion. We expect operating cash inflow to improve to RMB3.4 billion, RMB2.7 billion, and RMB2.9 billion in 2020-2022, respectively. The Company's largest committed capital expenditure within the next three years is the auto-parts assembly project that commenced construction in March 2019, amounting a total investment of RMB3.3 billion. As

the Company paid very little in interest expenses annually (less than RMB30 million) due to its small loan size (less than RMB500 million combined), annual dividends amounted to RMB500 million to RMB600 million, while annual capital expenditure amounted to less than RMB500 million, other than the mentioned auto-parts assembly project; we expect total financing and investing needs for the next three years combined to be at most RMB6.6 billion, which is less than the expected operating cash inflow, at RMB9.0 billion combined. Hence, we expect the Company to remain in net cash position in 2020-2022.

**Raise the TP to HK\$37.00 maintain "Accumulate".** Our EPS estimates for 2020/ 2021/ 2022 are RMB2.294, RMB2.697 and RMB2.988, respectively. We saw strong rebound in 3Q2020 revenue at 35.8% and shareholders' net profit at 85.4%, showing recovery was on track. In addition, the Company's proposal to issue new shares in Shanghai Sci-Tech Board is likely to boost its future valuation. Due to upward revision in EPS estimates, we have raised the TP to HK\$37.00, representing 11.3x/ 9.3x/ 8.0x 2020/ 2021/ 2022 EV/EBITDA. Maintain "Accumulate".

**Figure 3: CTE's Forward PE**


Source: Bloomberg.

**Figure 4: CTE's Forward PB**


Source: Bloomberg.

**Table 1: Peers Comparison**

Company	Stock Code	Currency	Last Price	PE				PB				ROE		D/Y
				19A	20F	21F	22F	19A	20F	21F	22F	20F	20F	
Zhuzhou Crcc Times Electri-H	03898 HK	HKD	33.800	13.2	13.2	11.5	10.6	1.6	1.4	1.3	1.1	11.0	1.5	
Crcc High-Tech Equipment C-H	01786 HK	HKD	0.740	8.2	10.9	9.3	8.2	0.2	0.2	0.2	0.2	1.6	4.6	
Sun King Power Electronics	00580 HK	HKD	2.120	15.4	17.1	15.6	13.9	1.8	1.6	1.5	1.4	10.3	2.5	
China Railway Signal & Com-H	03969 HK	HKD	2.600	6.0	6.2	5.6	5.1	0.6	0.5	0.5	0.5	8.9	7.3	
Crcc Corp Ltd - H	01766 HK	HKD	2.670	5.7	6.2	5.4	4.8	0.5	0.4	0.4	0.4	7.4	5.8	
China Its Holdings Co Ltd	01900 HK	HKD	0.164	n.a.	n.a.	n.a.	n.a.	0.1	n.a.	n.a.	n.a.	n.a.	n.a.	
Hebei Yichen Industrial Gr-H	01596 HK	HKD	4.180	16.7	n.a.	n.a.	n.a.	1.7	n.a.	n.a.	n.a.	n.a.	n.a.	
Global Link Comm Hldgs Ltd	08060 HK	HKD	0.141	n.a.	n.a.	n.a.	n.a.	0.3	n.a.	n.a.	n.a.	n.a.	n.a.	
Simple Average				10.9	10.7	9.5	8.5	0.9	0.8	0.8	0.7	7.8	4.3	
Weighted Average				6.8	7.0	6.1	5.5	0.7	0.5	0.5	0.5	8.0	5.6	

**Financial Statements and Ratios**

Income Statement						Balance Sheet					
Year end 31 Dec (RMB m)	2018A	2019A	2020F	2021F	2022F	Year end 31 Dec (RMB m)	2018A	2019A	2020F	2021F	2022F
Total Revenue	15,658	16,304	17,436	18,777	20,510	Fixed Assets	2,742	2,983	4,627	4,635	4,313
Cost of Sales	(9,790)	(9,966)	(10,790)	(11,553)	(12,565)	Construction in Progress	275	92	102	113	125
Gross Profit	5,868	6,338	6,646	7,223	7,944	Intangible Assets	676	746	857	959	1,087
Other Income / Expenses, Net	347	50	(36)	170	168	Long-term Equity Investments	464	527	636	762	906
Selling and Distribution Costs	(1,153)	(1,121)	(1,168)	(1,258)	(1,374)	Other Non-current Assets	1,296	1,863	1,908	2,085	2,289
Administrative Expenses	(2,224)	(2,456)	(2,615)	(2,798)	(3,056)	Total Non-current Assets	5,452	6,211	8,131	8,554	8,720
Finance Costs	25	(4)	20	26	40	Trade and Bills Receivables	9,994	10,140	10,239	11,026	12,043
Investment Income	80	95	109	126	144	Inventories	3,114	3,768	3,487	3,755	4,102
Operating Profit	2,943	2,901	2,956	3,489	3,867	Financial Assets through P/L	2,635	7,461	7,461	7,461	7,461
Non-operating Income / Expenses, Net	24	31	38	31	33	Cash & Cash Equivalents	4,394	4,302	4,869	6,293	8,167
Profit Before Tax	2,967	2,933	2,994	3,520	3,901	Other Current Assets	3,445	1,103	1,136	1,171	1,210
Income Tax	(317)	(275)	(299)	(352)	(390)	Total Current Assets	23,583	26,775	27,191	29,706	32,983
Profit After Tax	2,651	2,658	2,695	3,168	3,511	Total Assets	29,035	32,986	35,322	38,260	41,703
Non-controlling Interest	(38)	2	2	2	2	Short-term Borrowings	168	147	147	147	147
Shareholders' Profit / Loss	2,612	2,659	2,697	3,170	3,512	Trade and Bills Payables	5,535	6,674	6,667	6,725	6,898
Basic EPS	2.222	2.262	2.294	2.697	2.988	Other Payables and Accruals	926	1,011	1,081	1,164	1,271
DPS	0.450	0.450	0.450	0.450	0.450	Other Current Liabilities	1,095	1,551	1,641	1,739	1,848
						Total Current Liabilities	7,724	9,382	9,535	9,775	10,164
						Long-term Borrowings	232	231	231	231	231
						Provisions	374	450	445	479	523
						Other Non-current Liabilities	581	727	750	775	803
						Total Non-current Liabilities	1,187	1,407	1,425	1,484	1,557
						Total Liabilities	8,911	10,789	10,960	11,259	11,720
						Share Capital	1,175	1,175	1,175	1,175	1,175
						Reserves	18,649	20,735	22,902	25,543	28,527
						Total Shareholders' Equity	19,825	21,910	24,078	26,719	29,702
						Minority Interest	299	286	284	283	281
						Total Equity	20,124	22,196	24,362	27,002	29,983
						Total Equity and Liabilities	29,035	32,986	35,322	38,260	41,703
						BVPS	16.865	18.639	20.483	22.730	25.268
Cash Flow Statement						Financial Ratios					
Year end 31 Dec (RMB m)	2018A	2019A	2020F	2021F	2022F		2018A	2019A	2020F	2021F	2022F
Net Profits	2,651	2,658	2,695	3,168	3,511	Gross Margin (%)	37.5	40.6	39.9	39.8	39.7
Depreciation and Amortization	419	512	525	581	634	Operating Margin (%)	18.8	17.3	16.5	18.2	18.5
Change in the Working Capitals	901	(1,491)	178	(996)	(1,189)	Net Margin (%)	16.7	15.8	15.0	16.5	16.8
Other Adjustment	(212)	159	(7)	(55)	(73)	ROA (%)	9.4	8.6	7.9	8.6	8.8
Cash from Operating Activities	3,759	1,838	3,390	2,699	2,883	ROE (%)	13.9	12.7	11.7	12.5	12.5
Capital Expenditure	(13,130)	(14,325)	(2,338)	(797)	(538)	Net Gearing Ratio (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
Other Investing Activities	10,780	12,849	36	41	46						
Cash from Investing Activities	(2,350)	(1,475)	(2,302)	(756)	(491)						
Issuance of Shares	0	0	0	0	0						
Issuance / (Repayment) of Debts	102	(33)	0	0	0						
Dividends	(553)	(570)	(529)	(529)	(529)						
Other Financing Activities	0	96	0	0	0						
Cash from Financing Activities	(452)	(507)	(529)	(529)	(529)						
Cash at Beg of Year	3,422	4,381	4,244	4,805	6,223						
Net Changes in Cash	957	(145)	559	1,414	1,862						
Forex	2	8	2	4	5						
Add: Restricted Deposit over 3 Months	13	58	64	71	78						
Cash at End of Year	4,394	4,302	4,869	6,293	8,167						

Source: the Company, Guotai Junan International.

### Company Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating		Definition
Buy	买入	Relative Performance > 15%; or the fundamental outlook of the company or sector is favorable.
Accumulate	收集	Relative Performance is 5% to 15%; or the fundamental outlook of the company or sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the company or sector is neutral.
Reduce	减持	Relative Performance is -5% to -15%; or the fundamental outlook of the company or sector is unfavorable.
Sell	卖出	Relative Performance < -15%; or the fundamental outlook of the company or sector is unfavorable.

### Sector Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating		Definition
Outperform	跑赢大市	Relative Performance > 5%; or the fundamental outlook of the sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the sector is neutral.
Underperform	跑输大市	Relative Performance < -5%; Or the fundamental outlook of the sector is unfavorable.

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 27/F., Low Block, Grand Millennium Plaza, 181 Queen's Road Central, Hong Kong.  
 Tel.: (852) 2509-9118 Fax: (852) 2509-7793  
 Website: www.gtja.com.hk