

Benefiting from Policies, Huazhong In-Vehicle Pushes Forward Lightweight Cars

In terms of the developments of auto industry, new energy automobiles and smart automobiles attract most attention of the market. However, the lightweight automobiles have been neglected by investment markets for long. In recent years, reforms of auto technology in auto parts industry accelerated. Taking auto body structure as an example, steel is gradually replaced by lightweight materials, e.g. engineering plastics, carbon fiber, aluminum alloy and composite materials, as the main materials of automobiles. Based on research results, designs of lightweight automobiles enjoy three main features including saving fuel, reducing emission and saving cost. The *Thirteenth Five-Year Plan on Development of Strategic Emerging Industry* released by the State Council previously has clearly provided such ideas as promoting lightweight automobiles, new energy automobiles and smart automobiles. Therefore, the lightweight automobiles have been included into national strategy and the national policy. The lightweight automobiles, as a sub-industry of automobile, will definitely embrace its historic time for rapid development. As an investor, you are suggested to observe an investment object with great potentials.

In Hong Kong Stock Market, Minth, leading auto parts manufacturer (0425.HK) has made trials in lightweight parts. However, the only player that focuses on lightweight auto parts is Huazhong In-Vehicle (6830.HK) which is the a leading Chinese auto parts manufacturer and supplier mainly dealing with interior and exterior structure and decorative parts (e.g. front/rear bumpers, front-end carrier, dashboard and etc.), mouldings and toolings, air-conditioning units casing and liquid tank and other non-auto parts manufacturing and sales, in which the interior and exterior decorative parts account for over 70% of total revenue and 40% of total market shares. Huazhong In-Vehicle has devoted itself into the auto parts industry for 20 years and has maintained a long-term and stable cooperation with the frontier auto joint ventures for over a decade, including SVW, FAW-Volkswagen and SGM. With a sharp sense of business potentials in the industry, Huazhong takes the lead in market layout of lightweight automobiles and advocates the philosophy of replacing steel with plastics featuring adopting plastics instead of steel traditionally used on autos as the main materials of auto parts. Such a design could result in a 1/4 to 1/8 reduction of weight, thus cutting fuel consumption, lowering costs and creating benefits and complying with national policies regarding environment protection through saving energy and reducing emission.

According to statistics of 2011-2015 Europe Auto Body Conference, the coefficient of lightweight of automobiles decreased by about 30% from 3.29 in 2011 to 2.33 in 2015. Lightweight designs is the core demand for some auto engine manufacturers. Huazhong has gained its advantage as an auto parts supplier that invests in manufacturing technology of lightweight automobiles and is potential to occupy the emerging markets and increase market shares. It is reported that Huazhong realized its parts design, production and promotion by replacing steel with plastics through conducting independent R&D and assisting clients in development. The front-end module is supplied to such clients as SVW, FAW-Volkswagen and Audi and many other famous engine manufacturers. Apart from the brand joint ventures which Hazhong has cooperated for years, Huazhong accelerated expansion of domestic independent brands. Now, it is the first supplier of front-end carrier that replaces steel with plastics for such domestic engine

manufacturers as Geely Automobile, BAIC Yinxiang, Daimler-BYD and ZOTYE Auto. Our powerful client base provides us with stable source of revenue. With regard to the pillar, Huazhong plays a leading role in the industry and has invested RMB30million to realize an independent R&D or full automatic production line of pillar that replaces steel with plastics. It is expected that the production volume and gross profit rate will be superior to existing products in 2018. Such a design will definitely bring more benefits to the Huazhong.

As an auto share that benefits from lightweight automobile, the share price of Huazhong is now at its bottom, and the PE is now 14 times or so, which is lower than industrial average. The development of auto industry will possibly continue and the lightweight automobiles will be more popular. Therefore, Huazhong's performance will further be increased. Its assessed value has the potential of being reevaluated, thus facilitating investors' arrangement of investment portfolio.