



Founder Securities (Hong Kong): Huazhong In-Vehicle Has Considerable Potential with a Bright Outlook

Benefitted from the government policy of raising the threshold of the subsidized vehicles, the sales of domestic vehicles hit a new record high, driving the auto stocks to regain rising momentum. However, on the other hand, the supply chains and parts enterprises of the automobile industry only attract little interest from the market. Recently, the Strategic Research Department of Founder Securities has investigated and researched on Huazhong In-Vehicle and communicated with its management. The key takeaways from the meeting are as follows:

Huazhong In-Vehicle, listed in 2012, is the leading auto body parts manufacturer in China with totally 17 production bases located in Ningbo, Changchun, Shanghai, Chongqing, Guangzhou and Chengdu, etc.. Its major clients include FAW-Volkswagen, SAIC-GM, Changan Ford, Beijing Benz, German Volvo. The production bases are dispersed because of its principle of being in close proximity to the plants of different clients to alleviate the transportation cost. The commitment of factories is guaranteed to be transformed into revenue through the signing of long term contracts which last from five to eight years.

In the aspect of products, internal and external structural and decorative parts accounted for more than 75% of Huazhong In-Vehicle's revenue, while the casings and liquid tanks of air conditioners and heaters come next. With its low-pressure plastic injection molding, its core products are sold to the models including Audi A6L、A4L、Q3, Volvo, etc.. Gross profit margin maintained at 30%, in particular, the internal and external structural and decorative parts contributed a relatively bigger part of gross profit margin. Technically, Huazhong In-Vehicle actively conducts the R&D on the technology of "replacing steel with plastics" which are widely applied in the design, production and promotion of auto parts.

The company's development is satisfactory in recent years and maintained positive operating cash flow in the past three years successively. Its interim and annual results in 2016 recorded a relatively significant growth, which was mainly attributable to the increasing demand of internal and external structural and decorative parts with relatively high gross profits. Out of the top ten automobile manufacturers in China, the Group has established business relationships with six of them to support



the Group's stable business. In addition, the Group has also actively allocated resources to the construction of technological barrier, including investing RMB150 million to set up the first specialized domestic production line for sunshade fabrics which is expected to commence production in 2017. The related clients include the roof assembly manufacturers of the top-notch domestic and overseas vehicle OEMs, namely Mercedes, BMWs, Audi, FAW-Volkswagen, SAIC Volkswagen, SAIC-GM, etc.. In regard to the technology of "replacing steel with plastics", Huazhong In-Vehicle has invested RMB30 million to develop a fully automated production line for the products of skid plates. Huazhong In-Vehicle has set The Internet of Vehicles as the target in its development strategy in the coming three years. We believe that the priority of the entry point will be certain parts of auto parts including smart hardware or sensors.