

EVA Precision Industrial (838 HK)

Multiple growth drivers ahead

EVA Precision is set to enter a new growth trajectory given: (1) the fast-growing auto parts revenue following the start of product delivery to **Tesla (TSLA US)**, (2) solid growth of office automation against the backdrop of industry consolidation, as well as (3) the new business initiative such as the internet server business. On 3 Nov, the Company granted ~69mn units of share options to the senior management (strike price: HK\$1.80, exercisable from 2 May 2023). We see good incentive for the Company to deliver results. Despite the share price rally late Oct, stock is still trading at ~1.5x historical P/B.

- Tesla's tier-one supplier.** After obtaining the tier-one supplier qualification from Tesla, EVA began to receive orders directly from Tesla with mass production kicking off in Jul 2021 and product delivery in Aug 2021. The product is mainly the front seat frame. Based on our estimates, the revenue currently contributed by Tesla reaches HK\$100mn (~US\$12.8mn) on annualized basis. We expect the revenue contribution will increase further given the order growth from Tesla along with the capacity growth of EVA. Besides, EVA will strive to penetrate further by offering Tesla more different types of products in future. Meanwhile, EVA has been supplying car back seat frame to Tesla indirectly, through **Faurecia (EO FP)**, the largest customer of EVA's auto parts segment.
- Solid growth of office automation (OA) segment.** EVA's OA equipment customers (mainly the Japanese firms) have plans to gradually scale down their own production lines in China in order to put the focus on marketing and business development. This offers EVA good opportunities to win more orders and gain market share going forward. Besides, EVA acquired Futaba Metal in Apr 2021, which we expect will help boost >10% of incremental revenue (on full year basis).
- Internet server business a new growth driver.** By leveraging the strong R&D, manufacturing capability, as well as technical advantage of stamping and secondary-processing automation, EVA has started to offer server sheet metal, plastics parts, as well as provide ODM manufacturing service on the server control box and chassis parts. It focuses on the "L3-L5" server manufacturing stage, providing crate, plug-in frame and rack, as well as other products and assembly services. We expect the revenue contribution will be <2% this year but we expect the contribution to further increase. Besides, we expect EVA will potentially expand the product offerings in other downstream applications in future.
- Expect resilient gross margin trend.** EVA achieved blended gross margin of 20.4% in 1H21, up from a low base of 17.4% in 1H20. We understand that EVA is currently able to pass-through the rising steel cost to the customers. We expect the gross margin for OA segment to remain stable at 19-20%, while that for auto parts will be >25%.
- Capacity expansion plan in Mexico.** Following the commencement of phase one factory, the revenue contribution from Mexico surged 9.8x YoY to HK\$116mn in 1H21 (4.9% of total revenue). Phase two factory, with capacity equivalent to 2x of phase one, is now under construction. We estimate the total annual output value (phase one & two) will potentially reach HK\$1.2bn upon the full commencement of phase two factory.

NOT RATED

Current Price

HK\$2.13

China Capital Goods

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Stock Data

Mkt Cap (HK\$ mn)	3,719
Avg 3 mths t/o (HK\$ mn)	33
52w High/Low (HK\$)	2.30/0.46
Total Issued Shares (mn)	1,746

Source: Bloomberg

Shareholding Structure

Zhang's family	41.6%
Others	58.4%

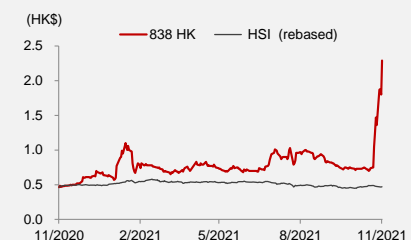
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	143.2%	138.9%
3-mth	85.6%	94.2%
6-mth	143.2%	175.6%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PricewaterhouseCoopers

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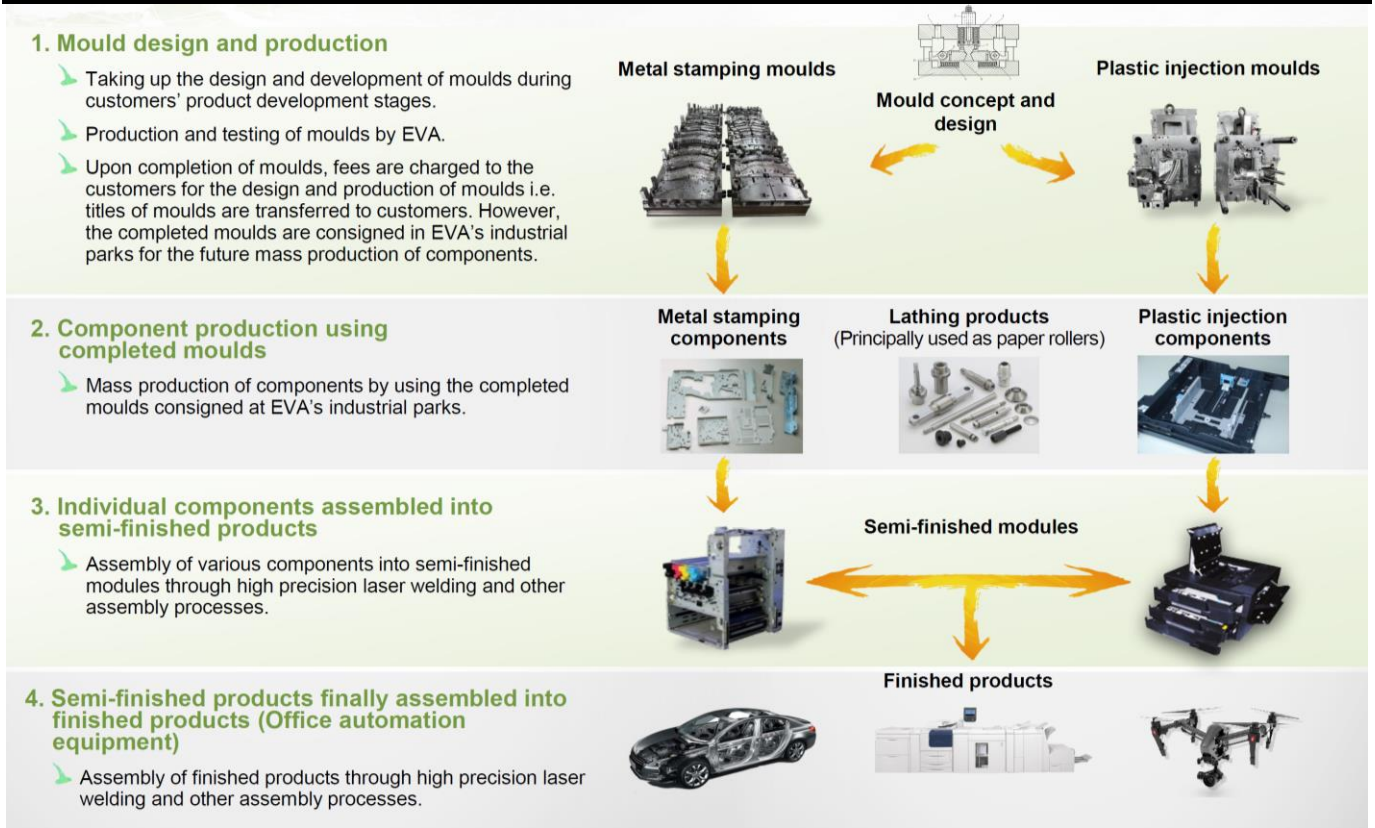
- **Company background.** Founded in 1993, EVA Precision is one of the few high-end vertically-integrated precision manufacturing service providers in China, capable of designing and manufacturing molds and components with high precision and dimensional accuracies. It comprises three main businesses: 1) office automation (OA) equipment business, 2) automotive component business and 3) internet server business. EVA currently operates 11 major industrial parks across China (Shenzhen, Suzhou, Zhongshan, Chongqing, Wuhan and Weihai), Vietnam and Mexico. The Company has been listed on the Main Board of the HKEX since 2005. Zhang Yaohua is the largest shareholder, holding ~41.6% of the total shares.
- **Business Overview: 1) OA equipment business.** Equipped with its strong ability to design and develop, precision engineering expertise and laser welding technology, EVA has reaffirming itself in a leading position in the industry, with a well-established world-class customer base, which includes Canon, HP, Ricoh, etc. **2) Automotive component business.** EVA focuses on developing automotive seat frame system, HS beam parts, chassis and functional parts, serving well renowned automobile tier-one suppliers and OEMs, e.g. Tesla, Volkswagen, Ford, etc. **3) Internet server business.** EVA aims to deliver a wide spectrum of products, which includes server sheet metal, plastic parts and assembly market, as well as providing ODM service for world-renowned server suppliers.

Earnings Summary

(YE 31 Mar)	FY18A	FY19A	FY20A	1H21A
Revenue (HK\$ mn)	3,667	3,747	4,008	2,387
YoY growth (%)	16	2	7	40
Net income (HK\$ mn)	83	52	-15	68
EPS (HK\$)	0.05	0.03	-0.01	0.04
YoY growth (%)	-38.8	-33.8	-	-
Consensus EPS (HK\$)	-	-	-	-
EV/EBITDA (x)	9.3	10.1	12.9	-
P/E (x)	47.0	71.0	n/a	-
P/B (x)	1.2	1.2	1.2	-
Yield (%)	0.7	1.7	0.0	-
ROE (%)	3.1	2.0	-0.6	-
Net gearing (%)	23.5	20.8	14.1	-

Source: Company data, CMBIS estimates, Bloomberg

Figure 1: EVA Precision’s vertically integrated one-stop services



Source: Company data, CMBIS

Figure 2: EVA’s major customers of the Digit Chongqing Automobile Industrial Park



Source: Company data, CMBIS

Figure 3: EVA’s major customers of the Digit Wuhan Automobile Industrial Park



Source: Company data, CMBIS

Figure 4: EVA’s major customers of the Digit Zhongshan Automobile Industrial Park



Source: Company data, CMBIS

Figure 5: EVA’s major customers of the Digit Mexico (SLP) Automobile Industrial Park



Source: Company data, CMBIS

Figure 6: EVA's major customers of the OA equipment business



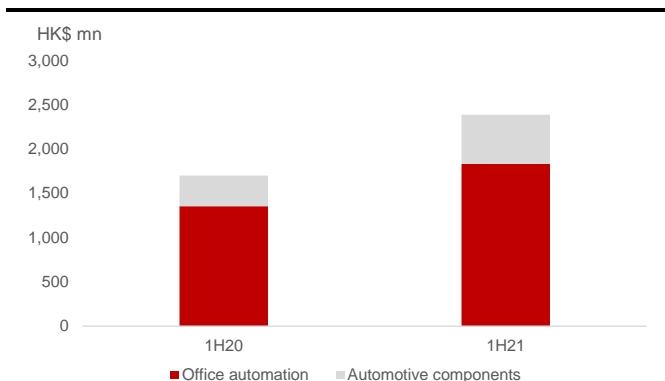
Source: Company data, CMBIS

Figure 7: EVA's major customers of the internet server business



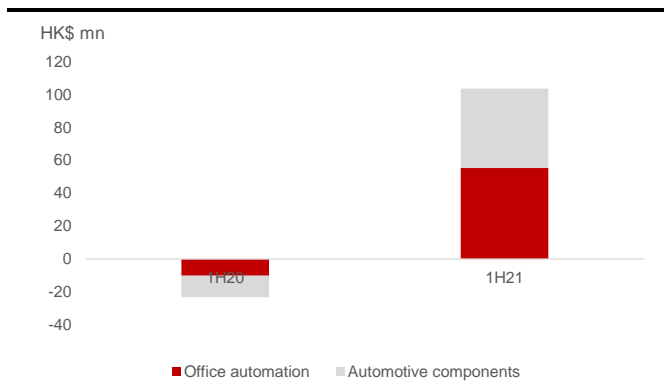
Source: Company data, CMBIS

Figure 8: EVA's OA/auto components revenue grew 35%/60% in 1H21



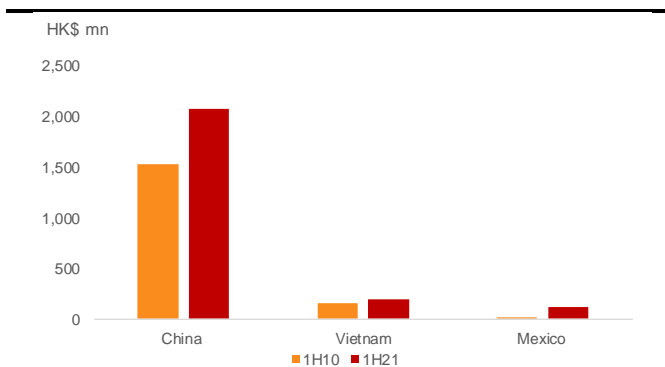
Source: Company data, CMBIS

Figure 9: EVA's reported segment profit in 1H21, a turnaround from segment loss in 1H20



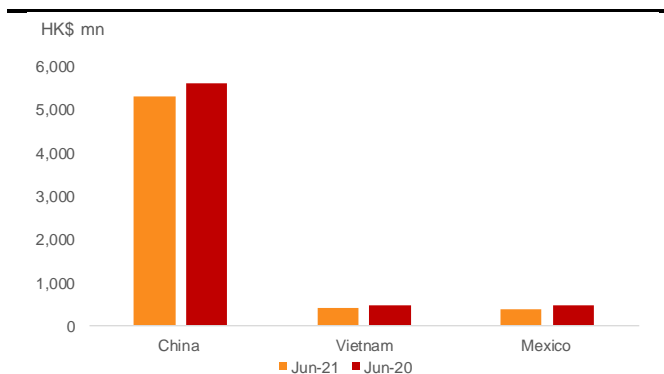
Source: Company data, CMBIS

Figure 10: EVA's revenue breakdown by region



Source: Company data, CMBIS

Figure 11: EVA's total asset breakdown by region



Source: Company data, CMBIS

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