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Core views

Xusheng is an auto supplier with the biggest exposure to Tesla in China, with 54% of its sales revenue in 2019 coming from the latter. We expect the Company to benefit from Tesla's rapid growth and global expansion given its technical know-how in aluminum high pressure die casting, forging and profile extrusion processes. Considering deeper cooperation with core clients such as Tesla and Germany-based auto supplier ZF in terms of new products and projects, we see likelihood for the Company to become an integrated assembly and system provider. We estimate its 2020E/21E/22E EPS to be Rmb0.72/0.97/1.36, implying 50x/37x/27x PE at the current price. We apply 45x 2021E PE to derive a target price of Rmb43.70 and initiate coverage with a "BUY" rating.

54% of Xusheng's revenue came from sales to Tesla in 2019

The Company's main products are aluminum high pressure die casting for automotive and industrial applications. In 2019, the Company reported revenue of Rmb1,097mn (+0.1% YoY) and attributable net profit of Rmb207mn (-29.6% YoY). In addition to Tesla, Xusheng supplies to auto OEMs such as BMW, Polaris, GAC, and tier-1 suppliers such as ZF, Valeo Siemens and CATL.

Aluminum alloy market grows with the NEV light-weighting trend

The global high-pressure casting market for aluminum alloys is likely to reach US\$59.7bn by 2024, with a 6-year CAGR of 7.7%, according to Research and Markets. At present, the market remains very fragmented with the market leader Pierburg only having less than 10% market share. According to Strategy Engineers' survey and projections, future applications of aluminum profiles and aluminum forging components will also increase significantly, with the market growing at a CAGR of 12.3% and 3.5% during 2017-30E, respectively.

Xusheng has very close cooperation with Tesla

Tesla has been the Company's biggest customer for the past five years, accounting for 49.3% of sales in 1H20. The cooperation dates back to 2014 and has extended from the supply of specific components to powertrain, suspension and battery systems. We reckon that Xusheng is supplying the Model S/X with an ASP of more than Rmb3,800 per vehicle and Model 3/Y with an ASP of more than Rmb1,200 per vehicle. Since Tesla is ramping up production in China and Europe, Xusheng is well-positioned to supply more parts to Tesla car models, and become a global partner of Tesla.

Aluminum expert in forging and profile extrusion processes

With the endorsement of Tesla, Xusheng is expanding its customer base, now serving BMW, Polaris, NIO and GAC with abundant orders in the backlog. Through fundraisings of Rmb1.9bn via IPO, convertible bond offering and private placement, Xusheng plans to build light-weighting

Ningbo Xusheng	603305
Rating	BUY
	(Initiation)
Current price	Rmb36.15
Target price	Rmb43.70
Total equity	447mn
Shares o/s	415mn
52W high/low	Rmb58.59/27.04
1M absolute gain	0.86%
6M absolute gain	8.73%
LTM absolute gain	48.59%

capabilities in forging and extrusion profile processes, and expects to receive orders from key customers such as Tesla and ZF. According to the ratio of Xusheng's cumulative revenue growth to cumulative capital expenditure from 2014 to date, we think that it is currently in the stage of high investment and low return of the capex cycle. As new projects continue to be launched, the Company's operation is well on track to switch to the upward cycle.

■ Potential risks

Disappointing shipments of the automobile industry; Disappointing sales volume of core client Tesla; Disappointing acquisition of new clients and orders.

■ Investment recommendation

Xusheng has the highest exposure to Tesla among listed Chinese auto suppliers. We expect the Company to benefit from Tesla's rapid growth and global expansion given its know-how in aluminum high pressure die casting, forging and profile extrusion processes. Considering deeper cooperation with core clients such as Tesla and ZF in terms of new products and projects, we see likelihood for the Company to become an integrated assembly and system provider. We estimate its 2020E/21E/22E EPS to be Rmb0.72/0.97/1.36, implying 50x/37x/27x PE at the current price. Considering the peer average valuation and the Company's estimated earnings growth over the coming three years, we apply 45x 2021E PE to derive a target price of Rmb43.70 and initiate coverage with a "BUY" rating.

Item/Year	2018	2019	2020E	2021E	2022E
Turnover (Rmb mn)	1,095.59	1,097.20	1,462.60	2,359.70	3,236.76
Growth rate (YoY, %)	48%	0%	33%	61%	37%
Net profit (Rmb mn)	293.72	206.59	322.21	431.94	608.70
Growth rate (YoY, %)	32%	-30%	56%	34%	41%
EPS (Rmb, Basic)	0.73	0.52	0.72	0.97	1.36
Gross margin (%)	40%	34%	36%	35%	35%
ROE (%)	20.32%	13.31%	18.20%	21.17%	25.04%
BVPS (Rmb)	3.23	3.47	3.96	4.56	5.44
PE(x)	50	70	50	37	27
PB(x)	11.2	10.4	9.1	7.9	6.6

Source: Wind, CITICS Research forecast

Note: Closing price as of 28 Sept 2020

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	OVERWEIGHT	Increase relative to market representative index between 5% and 20%
	HOLD	Increase relative to market representative index between -10% and 5%
	SELL	Decrease relative to market representative index over 10%
Investment ratings involved in investment advice contained in this report are divided into stock rating and sector rating (unless stated otherwise). Rating standard is based on the performance relative to the market in 6 to 12 months from the report distribution date, i.e. Performance of company stock price (or sector index) over the 6-to-12-month period from distribution date is benchmarked against the change in market representative index over the same period. CSI 300 Index serves as the benchmark index for the A-share market; the NEEQ Component Index (stocks subject to negotiated transfer) or the NEEQ Market Making Index (stocks subject to market making) is the benchmark index for the NEEQ board; MSCI-China Index is the benchmark index for Hong Kong market; NASDAQ Composite Index or Standard & Poor's 500 Index serves as the benchmark index for U.S. market; and Kosdaq Composite Index or KOSPI Composite Index as the benchmark index for South Korea market.	OUTPERFORM	Increase relative to market representative index over 10%
	NEUTRAL	Increase relative to market representative index between -10% and 10%
	UNDERPERFORM	Decrease relative to market representative index over 10%

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