

COMPANY RESULTS

Contemporary Amperex Technology (300750 CH)

3Q23: Results Came As Mixed Bag

CATL's 3Q23 results came as a mixed bag with revenue miss, EBIT beat and net profit miss. Net profit came in at Rmb10.43b (+11% yoy/-4% qoq), 5% below our estimate. The 3Q23 earnings miss lies in revenue and forex loss. Looking ahead, CATL's earnings will be driven by its strong product pipeline, decline in lithium carbonate prices and the ramp-up of upstream lithium projects. We keep 2023-25 EPS estimates unchanged. Maintain BUY and target price at Rmb410.00.

3Q23 RESULTS

| Year to 31 Dec (Rmb) | 3Q23 | yoy % chg | qoq % chg | 9M23 | yoy % chg |
|----------------------|---------|-----------|-----------|---------|-----------|
| Revenue | 105,431 | 8.3 | 5.2 | 294,677 | 40.1 |
| Gross profit | 23,641 | 26.0 | 7.4 | 64,581 | 62.0 |
| Gross margin (%) | 22.4 | 3.2 | 0.5 | 21.9 | 3.0 |
| EBIT | 13,149 | 46.9 | 14.6 | 35,612 | 92.3 |
| EBIT margin (%) | 12.5 | 3.3 | 1.0 | 12.1 | 3.3 |
| Net profit | 10,428 | 10.7 | (4.3) | 31,145 | 77.0 |
| Net profit (adj.) | 9,428 | 4.9 | (3.3) | 26,981 | 53.7 |
| Net margin (%) | 8.9 | (0.3) | (0.8) | 9.2 | 0.8 |

Source: CATL, UOB Kay Hian

RESULTS

- **Contemporary Amperex Technology's (CATL) 3Q23 results came as a mixed bag** with revenue miss, EBIT beat and net profit miss. 3Q23 net profit came in at Rmb10.43b (+11% yoy/-4% qoq), 5% below our estimate of Rmb11b. The slight earnings miss lies in revenue miss and the unexpected forex loss, which were partly offset by the margin improvement.
- **3Q23 revenue came in at Rmb105.4b (+8% yoy/+5% qoq)**, missing estimates, due to the rebate policy. Additionally, CATL's market share in China dropped to below 40% in Sep 23 due to the production halt of Tesla Model 3 for production line revamping and the rise of second-tier battery makers. On the other hand, CATL's share in the European market rose 8ppt yoy to 35% in 3Q23. The sales volume of batteries in 3Q23 was 100GWh, in line with expectations, of which 80% were automotive power batteries and the rest energy storage batteries.

KEY FINANCIALS

| Year to 31 Dec (Rmbm) | 2021 | 2022 | 2023F | 2024F | 2025F |
|-------------------------------|---------|---------|---------|---------|---------|
| Net turnover | 130,356 | 328,594 | 423,870 | 568,509 | 730,244 |
| EBITDA | 26,444 | 47,192 | 78,319 | 114,587 | 157,034 |
| Operating profit | 20,007 | 33,939 | 54,029 | 80,970 | 114,832 |
| Net profit (rep./act.) | 15,931 | 30,729 | 42,570 | 65,830 | 93,162 |
| Net profit (adj.) | 13,442 | 28,213 | 40,070 | 63,330 | 90,662 |
| EPS (sen) | 379.7 | 698.9 | 968.3 | 1,497.3 | 2,119.0 |
| PE (x) | 59.6 | 32.4 | 23.4 | 15.1 | 10.7 |
| P/B (x) | 11.2 | 6.1 | 5.0 | 3.9 | 2.9 |
| EV/EBITDA (x) | 36.4 | 19.6 | 11.8 | 3.8 | 3.2 |
| Dividend yield (%) | - | 0.6 | 0.9 | 1.3 | 1.9 |
| Net margin (%) | 10.3 | 8.6 | 9.5 | 11.1 | 12.4 |
| Net debt/(cash) to equity (%) | (41.9) | (55.4) | (46.1) | (54.1) | (64.0) |
| Interest cover (x) | (31.2) | (12.1) | (47.7) | (31.1) | (34.8) |
| ROE (%) | 18.1 | 22.7 | 21.9 | 27.6 | 30.4 |
| Consensus net profit | - | - | 45,740 | 59,511 | 75,893 |
| UOBKH/Consensus (x) | - | - | 0.93 | 1.11 | 1.23 |

Source: CATL, Bloomberg, UOB Kay Hian

BUY

(Maintained)

| | |
|--------------|-----------|
| Share Price | Rmb182.70 |
| Target Price | Rmb410.00 |
| Upside | +124.4% |

COMPANY DESCRIPTION

Contemporary Amperex Technology Ltd. (CATL) is a Chinese battery manufacturer and technology company that specialises in the manufacturing of lithium-ion batteries for electric vehicles and energy storage systems, as well as battery management systems (BMS).

STOCK DATA

| | |
|---------------------------------|------------|
| GICS sector | Industrial |
| Bloomberg ticker: | 300750 CH |
| Shares issued (m): | 4,397 |
| Market cap (HK\$m): | 803,245 |
| Market cap (US\$m): | 116,412 |
| 3-mth avg daily t'over (US\$m): | 572 |

Price Performance (%)

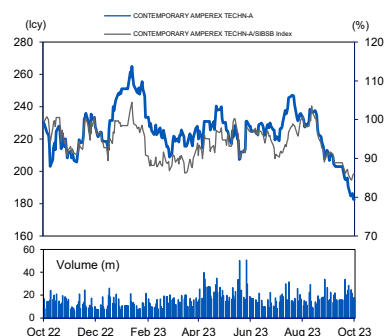
| | | | | |
|------------------|---------------------|-------------|------------|------------|
| 52-week high/low | Rmb272.53/Rmb182.28 | | | |
| 1mth | 3mth | 6mth | 1yr | YTD |
| (14.0) | (16.8) | (19.9) | (23.8) | (16.4) |

Major Shareholders

| | |
|---------------------------------|-------|
| Zeng Yuqun (Ruiting Investment) | 23.32 |
| Huang Shilin | 10.60 |

| | |
|---------------------------|------|
| FY23 NAV/Share (Rmb) | 36.8 |
| FY23 Net Debt/Share (Rmb) | 21.1 |

PRICE CHART



Source: Bloomberg

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- **Margin improvement boosted by plunge in lithium carbonate price.** Gross margin soared 3.2ppt yoy/0.5ppt qoq to 22.4% in 3Q23, while EBIT margin hiked 3.3ppt yoy/1.0ppt qoq to 12.5%. EBIT spiked 47% yoy/15% qoq to Rmb13.15b, beating estimates. The margin improvement is due to plunge in battery material prices, especially lithium carbonate. Lithium carbonate price in China plummeted by 47% during 2Q23.
- **Reversal from net finance income to net finance cost in 3Q23 due to forex loss.** CATL registered net finance cost of Rmb1,325m in 3Q23, compared to net finance income of Rmb1,484m/Rmb2,693m in 3Q22/2Q23. This was due to the unexpected forex loss from the Euro hedging position. CATL needed to buy Euro for expansion in Europe and did some hedging. The depreciation in Euro during 3Q23 caused forex loss for the company.

STOCK IMPACT

- **We keep our estimates on 2023-25 sales volume of automotive power batteries unchanged at 350GWh/500GWh/680GWh**, based on strong product pipeline. Among them, the Qilin battery for high-end models that can achieve a range of 1,000km was officially mass-produced and delivered in Mar 23 for ZEEKR 009. The second customer Li Auto was officially announced in April and the Model Mega will come into public at end-23. M3P batteries suitable for the 600-800km range models are also eligible for mass production this year, and the delivery time depends on how long customers take to design the corresponding model. CATL is also going to deliver sodium-ion batteries for mini-EVs with <500km range for Chery. Condensed batteries are able to be mass produced this year, but due to their high price, they will first be used in aircraft. In addition, CATL launched the world's first lithium iron phosphate 4C super-rechargeable battery, which can be charged for 10 minutes for a range of 400km. It will be mass-produced by the end of the year. CATL has signed cooperation agreements with Neta, Chery and BAIC.
- **We maintain 2023-25 sales volume of energy storage batteries at 80Gwh/128Gwh/192GWh**, based on the growth in demand from renewable energy companies. According to the company's guidance, they expect the sales growth rate of energy storage batteries to be higher than the industry average, and CATL is expected to benefit from the high growth of the energy storage industry.
- **We maintain 2023-25 gross profit per wh for automotive power batteries and energy storage batteries at Rmb0.17/Rmb0.17/Rmb0.17 and Rmb0.16/Rmb0.16/Rmb0.16.** We expect CATL to keep steady gross profit per wh in 2023-25, due to: a) the new pricing mechanism for batteries based on fluctuations in battery material prices, b) decline in battery material prices, and c) the launches of more lucrative new battery products, which offset the rebates.

EARNINGS REVISION/RISK

- **We maintain our estimates on 2023-25 net profit and EPS at Rmb42,570m/Rmb65,830m/Rmb93,162m and Rmb9.68/Rmb14.97/Rmb21.19 respectively**, based on increasing sales volume and stable gross margin.

VALUATION/RECOMMENDATION

- **Maintain BUY with target price at Rmb410.00**, based on our 10-year DCF model (WACC: 12.2%/terminal growth: 4%). Our target price of Rmb410.00 implies 27x 2024F PE.

PROFIT & LOSS

| Year to 31 Dec (HK\$m) | 2022 | 2023F | 2024F | 2025F |
|----------------------------------|---------------|---------------|---------------|----------------|
| Net turnover | 328,594 | 423,870 | 568,509 | 730,244 |
| EBITDA | 47,192 | 78,319 | 114,587 | 157,034 |
| Deprec. & amort. | (13,253) | (24,290) | (33,617) | (42,203) |
| EBIT | 2,827 | 3,000 | 3,000 | 3,000 |
| Total other non-operating income | (149) | - | - | - |
| Associate contributions | 2,615 | 2,275 | 3,605 | 4,000 |
| Net interest income/(expense) | 2,800 | 1,134 | 2,607 | 3,301 |
| Pre-tax profit | 36,673 | 54,438 | 84,182 | 119,133 |
| Tax | (3,216) | (8,166) | (12,627) | (17,870) |
| Minorities | (2,728) | (3,702) | (5,724) | (8,101) |
| Net profit | 30,729 | 42,570 | 65,830 | 93,162 |
| Net profit (adj.) | 28,213 | 40,070 | 63,330 | 90,662 |

CASH FLOW

| Year to 31 Dec (HK\$m) | 2022 | 2023F | 2024F | 2025F |
|------------------------------------------|-----------------|-----------------|-----------------|-----------------|
| Operating | 61,209 | 76,854 | 119,106 | 156,280 |
| Pre-tax profit | 2,827 | 3,000 | 3,000 | 3,000 |
| Tax | 557 | - | - | - |
| Depreciation/amortization | 13,253 | 24,290 | 33,617 | 42,203 |
| Associates | (2,615) | (2,275) | (3,605) | (4,000) |
| Working capital changes | 16,843 | 6,702 | 17,146 | 17,115 |
| Other operating cashflows | 30,344 | 45,138 | 68,948 | 97,962 |
| Investing | (64,140) | (66,408) | (60,482) | (63,774) |
| Capex (growth) | (48,215) | (63,960) | (65,947) | (69,933) |
| Investments | 12,765 | - | - | - |
| Investments | (12,765) | - | - | - |
| Proceeds from sale of assets | 1 | - | - | - |
| Others | (15,925) | (2,448) | 5,465 | 6,159 |
| Financing | 82,266 | (9,013) | (11,372) | (16,024) |
| Dividend payments | (3,551) | (9,013) | (11,372) | (16,024) |
| Issue of shares | 47,455 | - | - | - |
| Proceeds from borrowings | 50,958 | 60,000 | 60,000 | 60,000 |
| Loan repayment | (17,606) | (60,000) | (60,000) | (60,000) |
| Others/interest paid | 5,011 | - | - | - |
| Net cash inflow (outflow) | 82,124 | 1,433 | 47,252 | 76,482 |
| Beginning cash & cash | 75,506 | 157,629 | 159,062 | 206,315 |
| Changes due to forex impact | 2,788 | - | - | - |
| Ending cash & cash equivalent | 157,629 | 159,062 | 206,315 | 282,796 |

BALANCE SHEET

| Year to 31 Dec (HK\$m) | 2022 | 2023F | 2024F | 2025F |
|---------------------------------------|----------------|----------------|----------------|------------------|
| Fixed assets | 89,071 | 114,996 | 125,884 | 130,755 |
| Other LT assets | 124,147 | 143,607 | 165,653 | 189,512 |
| Cash/ST investment | 157,629 | 159,062 | 206,315 | 282,796 |
| Other current assets | 230,106 | 282,205 | 356,514 | 438,510 |
| Total assets | 600,952 | 699,870 | 854,366 | 1,041,574 |
| ST debt | 14,415 | 14,415 | 14,415 | 14,415 |
| Other current liabilities | 281,346 | 340,147 | 431,602 | 530,713 |
| LT debt | 59,099 | 59,099 | 59,099 | 59,099 |
| Other LT liabilities | 69,182 | 69,182 | 69,182 | 69,182 |
| Shareholders' equity | 164,481 | 200,896 | 258,213 | 338,208 |
| Minority interest | 12,428 | 16,130 | 21,854 | 29,955 |
| Total liabilities & equity | 600,952 | 699,870 | 854,366 | 1,041,574 |

KEY METRICS

| Year to 31 Dec (%) | 2022 | 2023F | 2024F | 2025F |
|---------------------------|--------|--------|--------|--------|
| Profitability | | | | |
| EBITDA margin | 14.4 | 18.5 | 20.2 | 21.5 |
| Pre-tax margin | 11.1 | 12.6 | 14.4 | 15.8 |
| Net margin | 8.6 | 9.5 | 11.1 | 12.4 |
| ROA | 6.2 | 6.2 | 8.1 | 9.6 |
| ROE | 22.7 | 21.9 | 27.6 | 30.4 |
| Growth | | | | |
| Turnover | 152.1 | 29.0 | 34.1 | 28.4 |
| EBITDA | 78.5 | 66.0 | 46.3 | 37.0 |
| Pre-tax profit | 84.4 | 48.4 | 54.6 | 41.5 |
| Net profit | 92.9 | 38.5 | 54.6 | 41.5 |
| Net profit (adj.) | 109.9 | 42.0 | 58.0 | 43.2 |
| EPS | 84.1 | 38.5 | 54.6 | 41.5 |
| Leverage | | | | |
| Debt to total capital | 16.6 | 14.3 | 11.7 | 9.6 |
| Debt to equity | 60.8 | 49.7 | 38.7 | 29.5 |
| Net debt/(cash) to equity | 60.8 | 49.7 | 38.7 | 29.5 |
| Interest cover (x) | (12.1) | (47.7) | (31.1) | (34.8) |