

Hu Lane (6279.TWO/6279 TT)

Solid China auto demand, but margin pressure looming

Neutral · Downgraded

Price as of March 18 (NT\$)	166.0
12M target price (NT\$)	178.0
Previous target price (NT\$)	185.0
Revised down (%)	3.8
Upside (%)	7.2

Key message

- 4Q23 EPS arrived at NT\$3.39, in line with our estimate.
- 2024F revenue to grow 15% YoY on solid China auto demand and recovery from low bases in multiple markets.
- We cut 2024F EPS by 4% due to looming concerns about copper prices, which clouds the firm's margins outlook.

Trading data

Mkt cap (NT\$/bn/US\$mn)	16.54 / 524
Outstanding shares (mn)	99.66
Foreign ownership (mn)	12.93
3M avg. daily trading (mn)	0.49
52-week trading range (NT\$)	133.0 –175.5

Performance	3M	6M	12M
Absolute (%)	7.4	11	13.7
Relative (%)	-5.2	-8.1	-14.9

Quarterly EPS

NT\$	1Q	2Q	3Q	4Q
2022	2.07A	1.05A	4.62A	2.29A
2023	2.23A	0.73A	2.90A	3.39A
2024	2.56F	2.32F	2.92F	3.74F

Share price chart



Source: TEJ

Event

Hu Lane reported 2023 EPS of NT\$9.24, down 8% YoY.

Impact

4Q23 earnings in line. 4Q23 revenue came in at NT\$2.26bn, up 20% QoQ and 13% YoY, in line with our estimate thanks to stable China auto demand, which grew 19% YoY to account for 82% of revenue. Gross margin edged up 1.7ppts QoQ to 34.1% on better economies of scale and lower copper costs, for operating profit of NT\$434mn, up 36% QoQ and 26% YoY, and EPS of NT\$3.39, up 17% QoQ and 48% YoY. 2023 revenue arrived at NT\$7.33bn, up 12% YoY on 18% YoY China revenue growth (contribution of 77%), with operating profit expanding 18% YoY to NT\$1.22bn.

2024F revenue to rise YoY. Key China OEM accounts BYD, Changan, Geely, and Chery have set double-digit or higher YoY vehicle sales growth targets for 2024, compared to an overall sales growth forecast of 3% YoY by CAAM, implying Hu Lane will benefit from the auto electrification trend in China due to its favorable client portfolio. Multiple markets other than China will recover from low bases, including Vietnam (motorcycles), the US (snowmobiles), and Taiwan (e-motorcycles), while Europe will likely see strong growth on higher penetration of motorcycle OEMs. We raise 2024F revenue to NT\$8.44bn, up 15% YoY, with China contribution up 14% YoY, for a weighting of 76%.

Copper price spike a concern. The LME copper price recently surged to around US\$9k/metric ton (mt), reflecting potential production cuts in China, as well as market expectations that demand will bottom soon as the high interest rate environment is nearing an end, which would likely trigger the resurgence of the EV and renewables sectors. With copper accounting for 35% of BOM, we have become more cautious about Hu Lane's gross margin outlook from 2Q24. As such, we trim 2024F gross margin by 1.3ppts to 32.6%, and revise down EPS by 4% to NT\$11.54, up 25% YoY.

Valuation & Action

We downgrade Hu Lane to Neutral and lower our 12M target price to NT\$178, based on 17x 2024F fully diluted EPS. We like the firm's strong client portfolio and rising NEV contribution (25-30%), but gross margin risk and the start of the slow season could halt share price momentum.

Risks

Execution; rising material costs, especially copper; weak macro conditions.

Key financials and valuations

	Dec-21A	Dec-22A	Dec-23A	Dec-24F	Dec-25F
Revenue (NT\$mn)	4,949	6,527	7,331	8,437	9,313
Gross profit (NT\$mn)	1,736	1,965	2,349	2,754	3,089
Operating profit (NT\$mn)	968	1,038	1,221	1,496	1,713
Net profit (NT\$mn)	789	1,000	921	1,150	1,322
EPS (NT\$)	7.91	10.03	9.24	11.54	13.26
Cash DPS (NT\$)	5.00	5.60	5.50	7.00	8.00
EPS growth (%)	41.5	26.8	(7.9)	24.9	14.9
PE (x)	21.0	16.5	18.0	14.4	12.5
PB (x)	3.3	3.0	2.7	2.5	2.3
EV/EBITDA (x)	13.7	12.9	10.8	9.0	7.9
Net debt to equity (%)	16.9	32.0	33.1	28.9	22.9
Dividend yield (%)	3.0	3.4	3.3	4.2	4.8
Return on average equity (%)	16.4	19.0	15.9	18.3	19.5

Source: Company data, KGI Research estimates

Figure 1: Breakdown of 4Q23 results & 1Q24 forecast revisions vs. consensus

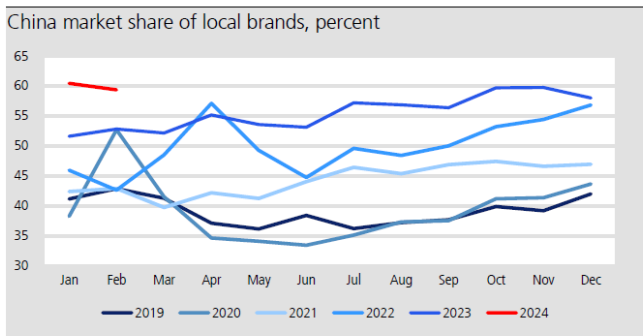
NT\$m	4Q23							1Q24F						
	Actual	KGI	Diff. (%)	QoQ (%)	YoY (%)	Consensus	Diff. (%)	Revision	Previous	Chg. (%)	QoQ (%)	YoY (%)	Consensus	Diff. (%)
Sales	2,257	2,266	(0.4)	19.7	12.7	2,236	0.9	1,921	1,879	2.2	(14.8)	19.3	1,853	3.7
Gross profit	769	782	(1.6)	26.0	27.1	765	0.5	626	611	2.5	(18.6)	22.2	611	2.5
Operating profit	434	449	(3.2)	36.1	26.4	451	(3.7)	332	322	3.3	(23.5)	23.6	329	1.0
Net income	338	334	1.1	16.9	47.7	316	6.9	255	245	4.2	(24.4)	15.1	242	5.6
EPS (NT\$)	3.39	3.35	1.0	16.9	47.7	3.17	6.8	2.56	2.46	4.2	(24.4)	15.1	2.34	9.4
Gross margin (%)	34.1	34.5	(0.4) ppts	1.7 ppts	3.8 ppts	34.2	(0.1) ppts	32.6	32.5	0.1 ppts	(1.5) ppts	0.8 ppts	33.0	(0.4) ppts
Op. margin (%)	19.2	19.8	(0.6) ppts	2.3 ppts	2.1 ppts	20.2	(0.9) ppts	17.3	17.1	0.2 ppts	(1.9) ppts	0.6 ppts	17.8	(0.5) ppts
Net margin (%)	15.0	14.7	0.2 ppts	(0.4) ppts	3.5 ppts	14.1	0.8 ppts	13.3	13.0	0.3 ppts	(1.7) ppts	(0.5) ppts	13.0	0.2 ppts

Source: Bloomberg, KGI Research

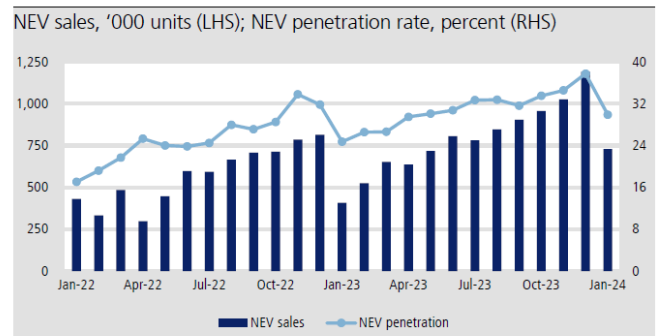
Figure 2: Breakdown of 2023 results & 2024 forecast revisions vs. consensus

NT\$m	2023						2024F					
	Actual	KGI	Diff. (%)	YoY (%)	Consensus	Diff. (%)	Revision	Previous	Chg. (%)	YoY (%)	Consensus	Diff. (%)
Sales	7,331	7,341	(0.1)	12.3	7,299	0.4	8,437	8,269	2.0	15.1	8,236	2.4
Gross profit	2,349	2,362	(0.5)	19.5	2,324	1.1	2,754	2,806	(1.9)	17.2	2,732	0.8
Operating profit	1,221	1,236	(1.2)	17.7	1,237	(1.3)	1,496	1,568	(4.6)	22.5	1,544	(3.1)
Net income	921	918	0.4	(7.9)	904	1.9	1,150	1,194	(3.7)	24.9	1,163	(1.1)
EPS (NT\$)	9.24	9.21	0.4	(7.9)	8.84	4.6	11.54	11.98	(3.7)	24.9	11.35	1.7
Gross margin (%)	32.0	32.2	(0.1) ppts	1.9 ppts	31.8	0.2 ppts	32.6	33.9	(1.3) ppts	0.6 ppts	33.2	(0.5) ppts
Op. margin (%)	16.7	16.8	(0.2) ppts	0.8 ppts	16.9	(0.3) ppts	17.7	19.0	(1.2) ppts	1.1 ppts	18.7	(1.0) ppts
Net margin (%)	12.6	12.5	0.1 ppts	(2.8) ppts	12.4	0.2 ppts	13.6	14.4	(0.8) ppts	1.1 ppts	14.1	(0.5) ppts

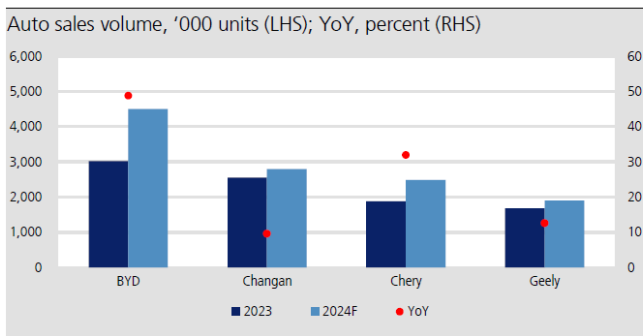
Source: Bloomberg, KGI Research

Figure 3: China brand sales outperformed joint venture brands in China in 2021-23


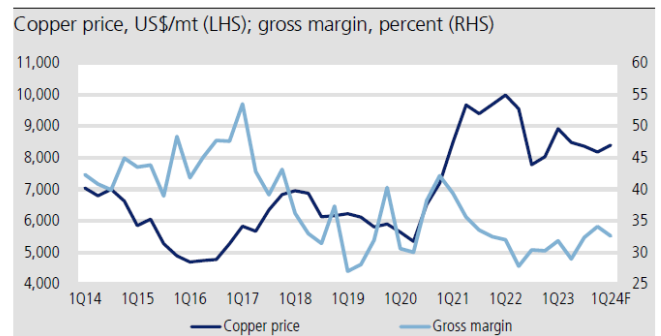
Source: CAAM, KGI Research

Figure 4: China NEV sales on the rise


Source: CAAM, KGI Research

Figure 5: Major China OEM accounts have set 10%+ sales growth targets for 2024


Source: Company data, KGI Research

Figure 6: Copper price spike could weigh on gross margin


Source: Bloomberg, Company data, KGI Research

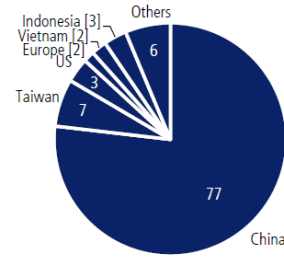
Figure 7: Company profile

Hu Lane develops and manufactures terminal products, largely for automobiles and motorcycles, and is the largest industry player in Taiwan. The company focuses on the OEM business and generates revenue from plastic housings and terminal connectors. It operates in China (77% of 2023 revenue), Taiwan (7%), US (3%), Indonesia (3%), Vietnam (2%), Europe (2%) and others. The firm has one factory in Taiwan, two in China (Nanjing and Dongguan) and one in Vietnam.

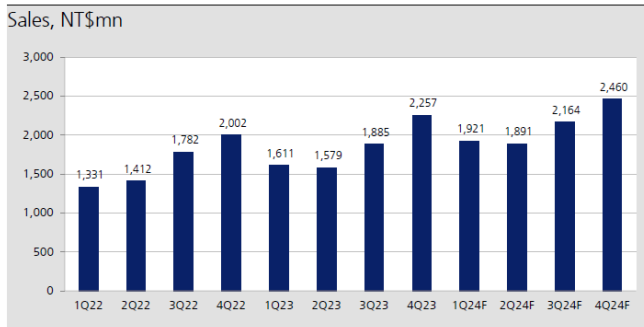
Source: KGI Research

Figure 8: Major exposure to China

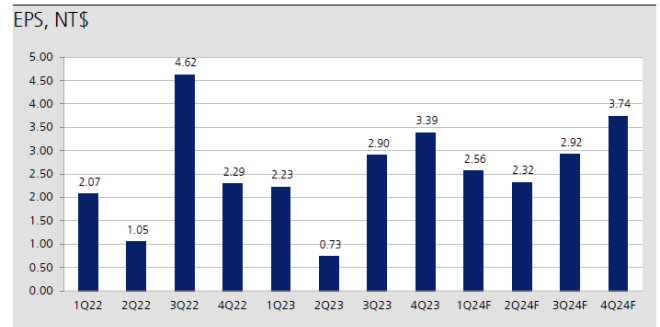
2023 sales weighting, percent



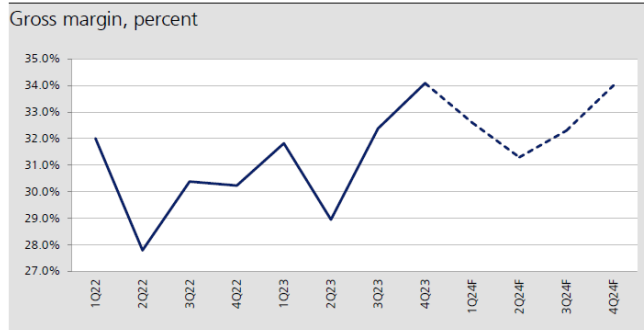
Source: KGI Research

Figure 9: Sales


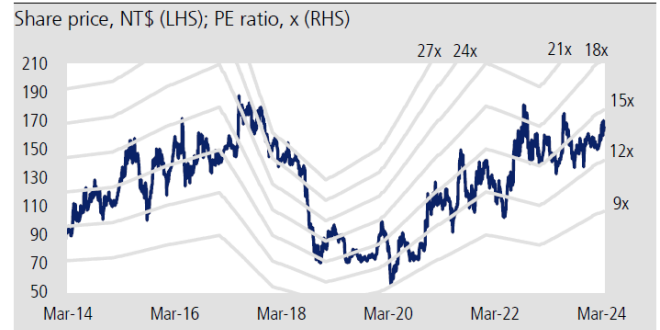
Source: KGI Research

Figure 10: EPS


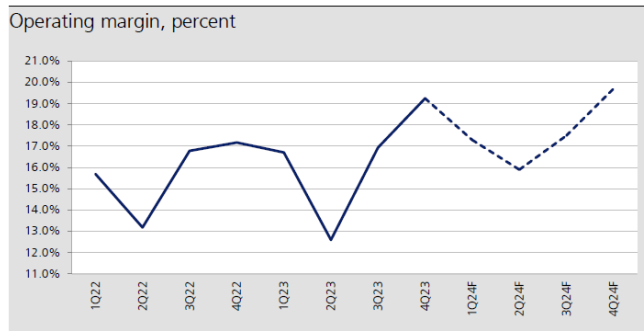
Source: KGI Research

Figure 11: Gross margin


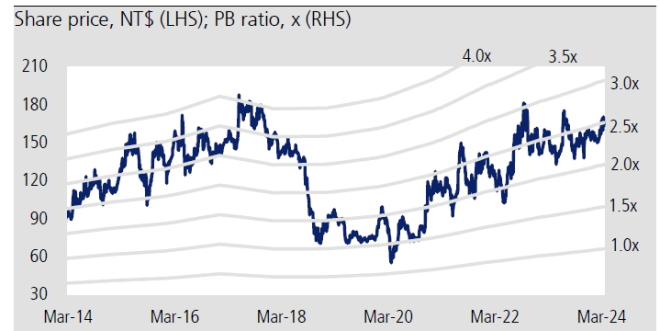
Source: KGI Research

Figure 12: 12-month forward PE band


Source: KGI Research

Figure 13: Operating margin


Source: KGI Research

Figure 14: 12-month forward PB band


Source: KGI Research

Income statement

	Quarterly								Annually		
	Mar-23A	Jun-23A	Sep-23A	Dec-23A	Mar-24F	Jun-24F	Sep-24F	Dec-24F	Dec-23A	Dec-24F	Dec-25F
Income statement (NT\$m)											
Revenue	1,611	1,579	1,885	2,257	1,921	1,891	2,164	2,460	7,331	8,437	9,313
Cost of goods sold	(1,098)	(1,122)	(1,274)	(1,487)	(1,295)	(1,299)	(1,465)	(1,623)	(4,982)	(5,683)	(6,224)
Gross profit	513	457	610	769	626	592	699	836	2,349	2,754	3,089
Operating expenses	(244)	(258)	(291)	(335)	(294)	(291)	(320)	(352)	(1,128)	(1,257)	(1,376)
Operating profit	269	199	319	434	332	301	379	485	1,221	1,496	1,713
Depreciation of fixed assets	(102)	(114)	(118)	(123)	(125)	(125)	(125)	(125)	(456)	(500)	(520)
Amortisation of intangible assets	(13)	(16)	(13)	(13)	(15)	(15)	(15)	(15)	(56)	(62)	(62)
EBITDA	384	329	450	570	473	441	519	625	1,734	2,058	2,295
Interest income	1	6	3	4	4	5	5	5	15	18	20
Investment income	0	(0)	3	1	-	-	-	-	1	-	-
Other non-op income	16	12	10	43	15	15	15	15	84	60	60
Non-operating income	18	18	16	48	19	20	20	20	101	78	80
Interest expense	(15)	(14)	(14)	(16)	(15)	(15)	(14)	(13)	(61)	(56)	(52)
Investment loss	(1)	0	1	-	-	-	-	-	-	-	-
Other non-op expenses	10	(44)	53	(75)	-	-	-	-	(57)	-	-
Non-operating expenses	(7)	(58)	39	(91)	(15)	(15)	(14)	(13)	(118)	(56)	(52)
Pre-tax profit	280	158	375	392	337	306	384	491	1,205	1,518	1,741
Current taxation	(56)	(84)	(85)	(53)	(81)	(73)	(92)	(118)	(278)	(364)	(418)
Minorities	(2)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(6)	(3)	(1)
Normalised net profit	222	73	289	338	255	232	291	372	921	1,150	1,322
Extraordinary items	(0)	(0)	0	(0)	-	-	-	-	-	-	-
Net profit	222	73	289	338	255	232	291	372	921	1,150	1,322
EPS (NT\$)	2.23	0.73	2.90	3.39	2.56	2.32	2.92	3.74	9.24	11.54	13.26
Margins (%)											
Gross profit margin	31.8	29.0	32.4	34.1	32.6	31.3	32.3	34.0	32.0	32.6	33.2
Operating margin	16.7	12.6	16.9	19.2	17.3	15.9	17.5	19.7	16.7	17.7	18.4
EBITDA margin	23.9	20.8	23.9	25.3	24.6	23.3	24.0	25.4	23.6	24.4	24.6
Pretax profit margin	17.4	10.0	19.9	17.4	17.5	16.2	17.8	20.0	16.4	18.0	18.7
Net profit margin	13.8	4.6	15.3	15.0	13.3	12.2	13.5	15.1	12.6	13.6	14.2
Sequential growth (%)											
Revenue growth	(19.5)	(2.0)	19.4	19.7	(14.8)	(1.6)	14.4	13.7			
Gross profit growth	(15.3)	(10.8)	33.5	26.0	(18.6)	(5.5)	18.1	19.7			
Operating profit growth	(21.7)	(26.1)	60.5	36.1	(23.5)	(9.5)	25.9	28.0			
EBITDA growth	(14.6)	(14.5)	36.9	26.7	(17.1)	(6.7)	17.7	20.4			
Pretax profit growth	(10.0)	(43.4)	136.6	4.5	(14.0)	(9.3)	25.7	27.9			
Net profit growth	(3.0)	(67.1)	295.3	16.9	(24.4)	(9.3)	25.7	27.9			
YoY growth (%)											
Revenue growth	21.1	11.8	5.7	12.7	19.3	19.8	14.8	9.0	12.3	15.1	10.4
Gross profit growth	20.3	16.4	12.7	27.1	22.2	29.5	14.5	8.7	19.5	17.2	12.2
Operating profit growth	28.8	6.9	6.7	26.4	23.6	51.2	18.7	11.6	17.7	22.5	14.5
EBITDA growth	32.2	17.4	12.4	26.6	23.0	34.2	15.3	9.6	22.0	18.7	11.5
Pretax profit growth	8.3	(11.8)	(26.3)	25.9	20.3	93.1	2.6	25.5	(4.2)	26.0	14.7
Net profit growth	7.4	(30.0)	(37.3)	47.7	15.1	217.1	0.8	10.3	(7.9)	24.9	14.9

Source: Company data, KGI Research estimates

Balance sheet

NT\$m	Dec-21A	Dec-22A	Dec-23A	Dec-24F	Dec-25F
Total assets	8,201	10,972	11,588	12,122	12,852
Current assets	4,446	6,317	6,649	7,075	7,720
Cash & ST securities	679	1,162	1,096	1,219	1,492
Inventory	1,295	1,820	1,733	2,019	2,217
Accounts receivable	2,138	2,939	3,510	3,527	3,700
Other current assets	334	396	311	311	311
Non-current assets	3,755	4,655	4,939	5,047	5,131
LT investments	2	22	16	25	29
Net fixed assets	3,474	4,077	4,457	4,557	4,637
Other assets	278	556	466	466	466
Total liabilities	3,196	5,398	5,478	5,556	5,759
Current liabilities	2,975	4,886	3,691	3,769	3,972
Accounts payable	766	1,197	1,127	1,056	1,160
Interest bearing ST liabilities	1,524	2,753	1,634	1,634	1,634
Other current liabilities	685	936	930	1,079	1,179
Non-current liabilities	221	512	1,787	1,787	1,787
Long-term debt	-	-	1,386	1,386	1,386
Other L-T liabilities	210	330	308	308	308
Total equity	5,004	5,575	6,110	6,567	7,092
Share capital	997	997	997	997	997
Retained earnings reserve	2,025	2,551	3,026	3,479	4,003
Minority interests	19	21	43	46	48
Preferred shareholders funds	-	-	-	-	-

Key ratios

	Dec-21A	Dec-22A	Dec-23A	Dec-24F	Dec-25F
Growth					
Revenue growth	35.5%	31.9%	12.3%	15.1%	10.4%
Operating profit growth	39.5%	7.2%	17.7%	22.5%	14.5%
EBITDA growth	31.4%	11.8%	22.0%	18.7%	11.5%
Net profit growth	41.5%	26.8%	(7.9%)	24.9%	14.9%
EPS growth	41.5%	26.8%	(7.9%)	24.9%	14.9%
Profitability					
Gross profit margin	35.1%	30.1%	32.0%	32.6%	33.2%
Operating margin	19.6%	15.9%	16.7%	17.7%	18.4%
EBITDA margin	25.7%	21.8%	23.6%	24.4%	24.6%
Net profit margin	15.9%	15.3%	12.6%	13.6%	14.2%
Return on average assets	10.4%	10.4%	8.2%	9.7%	10.6%
Return on average equity	16.4%	19.0%	15.9%	18.3%	19.5%
Stability					
Gross debt to equity	30.5%	49.4%	49.4%	46.0%	42.6%
Net debt to equity	16.9%	32.0%	33.1%	28.9%	22.9%
Interest coverage (x)	72.4	33.5	20.9	28.1	34.5
Interest & ST debt coverage (x)	0.4	0.3	0.4	0.5	0.5
Cash flow interest coverage(x)	44.2	20.4	23.6	23.9	31.5
Cash flow/int. & ST debt (x)	0.4	0.3	0.8	0.8	1.0
Current ratio (x)	1.5	1.3	1.8	1.9	1.9
Quick ratio (x)	1.1	0.9	1.3	1.3	1.4
Net debt (NT\$m)	846	1,786	2,023	1,900	1,626
Per share data					
EPS (NT\$)	7.91	10.03	9.24	11.54	13.26
CFPS (NT\$)	5.93	7.94	14.38	13.42	16.42
BVPS (NT\$)	50.02	55.72	60.88	65.43	70.69
Adj BVPS (NT\$)	50.02	55.73	60.88	65.43	70.69
SPS (NT\$)	49.66	65.49	73.56	84.66	93.46
EBITDA/share (NT\$)	12.76	14.26	17.40	20.65	23.03
Cash DPS (NT\$)	5.00	5.60	5.50	7.00	8.00
Activity					
Sales / avg assets	0.65	0.68	0.65	0.71	0.75
Days receivable	157.7	164.3	174.7	153.0	145.0
Days inventory	147.1	145.7	126.9	130.0	130.0
Days payable	87.1	95.8	82.6	68.0	68.0
Cash cycle	217.7	214.2	219.1	215.0	207.0

Source: Company data, KGI Research estimates

Profit & loss

NT\$m	Dec-21A	Dec-22A	Dec-23A	Dec-24F	Dec-25F
Revenue	4,949	6,527	7,331	8,437	9,313
Cost of goods sold	(3,213)	(4,562)	(4,982)	(5,683)	(6,224)
Gross profit	1,736	1,965	2,349	2,754	3,089
Operating expenses	(768)	(927)	(1,128)	(1,257)	(1,376)
Operating profit	968	1,038	1,221	1,496	1,713
Non-operating income	34	117	101	78	80
Interest income	2	5	15	18	20
Investment income	0	0	1	-	-
Other non-op income	32	111	84	60	60
Non-operating expenses	(46)	103	(118)	(56)	(52)
Interest expense	(13)	(39)	(61)	(56)	(52)
Investment loss	-	(4)	-	-	-
Other non-op expenses	(33)	146	(57)	-	-
Pre-tax profit	956	1,258	1,205	1,518	1,741
Current taxation	(160)	(256)	(278)	(364)	(418)
Minorities	(7)	(2)	(6)	(3)	(1)
Extraordinary items	-	0	(0)	-	-
Net profit	789	1,000	921	1,150	1,322
EBITDA	1,272	1,422	1,734	2,058	2,295
EPS (NT\$)	7.91	10.03	9.24	11.54	13.26

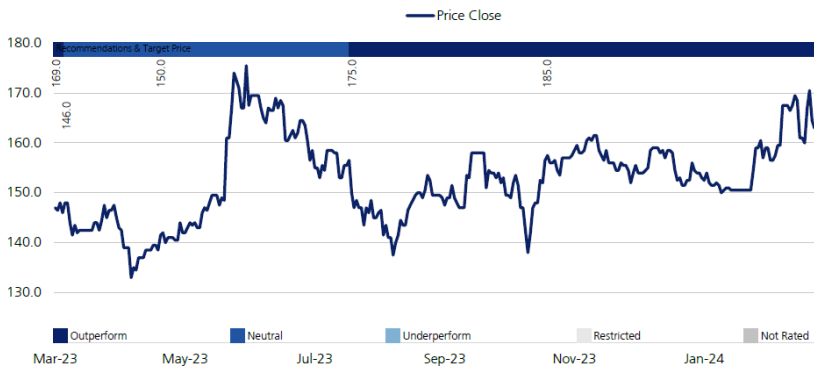
Cash flow

NT\$m	Dec-21A	Dec-22A	Dec-23A	Dec-24F	Dec-25F
Operations cash flow	591	792	1,433	1,338	1,636
Net profit	789	1,000	921	1,150	1,322
Depreciation & amortisation	304	384	512	562	582
Decrease in working capital	(517)	(828)	(617)	(374)	(268)
Other operating cash flow	15	236	616	-	-
Investing cash flow	(547)	(1,223)	(1,312)	(670)	(666)
Sale of ST investment	-	(181)	117	-	-
New investments	-	(17)	-	(8)	(4)
Capital expenditure	(591)	(1,065)	(1,528)	(600)	(600)
Others investing cashflow	45	40	99	(62)	(62)
Free cash flow	(33)	(720)	(749)	663	954
Financing cash flow	(107)	685	(70)	(545)	(696)
Increase in short term debt	300	1,209	(1,119)	-	-
Increase in long term loans	-	-	1,624	-	-
New ordinary shares issued	-	-	-	-	-
Ordinary dividends paid	(399)	(498)	(558)	(548)	(698)
Other financing cashflow	(8)	(26)	(17)	3	1
Forex effects	(32)	34	(20)		
Total cash generated	(95)	288	30	123	274

ROIC

	Dec-21A	Dec-22A	Dec-23A	Dec-24F	Dec-25F
1 - COGS/revenue					
- Operating exp./revenue	15.5%	14.2%	15.4%	14.9%	14.8%
= Operating margin	19.6%	15.9%	16.7%	17.7%	18.4%
1 / (Working capital/revenue	0.5	0.5	0.5	0.4	0.4
+ Net PPE/revenue	0.7	0.6	0.6	0.5	0.5
+ Other assets/revenue)	0.0	0.0	0.0	0.0	0.0
= Capital turnover	0.8	0.9	0.9	1.0	1.1
Operating margin	19.6%	15.9%	16.7%	17.7%	18.4%
x Capital turnover	0.8	0.9	0.9	1.0	1.1
x (1 - tax rate)	83.2%	79.7%	76.9%	76.0%	76.0%
= After-tax ROIC	13.6%	11.3%	11.5%	13.4%	14.9%

Source: Company data, KGI Research estimates

Hu Lane – Recommendation & target price history


Date	Rating	Target	Price
2023-11-09	Outperform	185.0	157.5
2023-08-08	Outperform	175.0	150.0
2023-05-09	Neutral	150.0	141.5
2023-03-25	Neutral	146.0	148.0
2023-01-03	Outperform	169.0	144.5
2022-11-08	Outperform	212.0	157.0
2022-09-13	Outperform	212.0	177.0
2022-08-11	Outperform	184.0	145.5
2022-07-17	Outperform	172.0	148.0
2022-05-10	Outperform	130.0	103.0

Source: TEJ, KGI Research

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