

BUY

48% ↑ side

Target price: HK\$16.90

Prior TP: HK\$11.44

1651 HK Price: HK\$11.40

TP basis: P/E

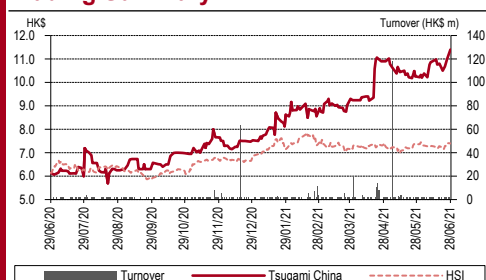
Sector rating: NEUTRAL

Forecast Revisions (%)

Year ended 31 Mar	22E	23E	24E
Revenue	30.8	36.3	0
Core EPS	63.1	66.6	0

Source: BOCI Research estimates

Trading Summary



(%)	YTD	1M	3M	12M
Absolute	52.4	11.8	26.2	85.7
Relative to HSI	41.8	11.3	22.2	55.7

Shares outstanding (m)	381
Free float (%)	28
Market cap. (HK\$ m)	4,342
3M avg. daily turnover (HK\$ m)	3
Net debt/equity (%) (2022E)	Net cash
Major shareholder (%)	
Tsugami Corporation	72

 Source: Company data, FactSet, BOCI Research
 Closing prices are as of 28 June 2021

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Precision Tsugami China

Strong 2HFY21 results and new order outlook

Sales and net profit rose by 60.4% and 151.5% YoY in FY21. To compare to FY19 to avoid the impact of pandemic, sales and net profit increased by 9.3% and 6.5%. If adjusted for the government subsidy, adjusted net profit rose by 0.77% compared to FY19. Sales and adjusted net profit grew by single digit in FY21 compared to FY19. New order in 1HFY22 continued the high growth, with the strong momentum driven by the auto, hydraulic system of construction machinery, pneumatic parts, etc. The strong momentum benefits from the solid macro economy and market share gain of Tsugami China. We roll over to FY22 and apply 12x FY22E P/E (previously 15x FY21E P/E) to derive the new TP of HK\$16.90. We apply a 20% discount to our previous target P/E multiple due to low liquidity. The new TP implies 48% upside, reiterate **BUY** rating.

Key Factors for Rating

- Tsugami China recorded a big rebound in new order and delivery in 2HFY21, with sales and net profit up by 100% and 342% YoY. The robust growth was mainly driven by the strong domestic demand from September 2020 to March 2021, driven by downstream sectors like auto, key components of construction machinery, and pneumatic parts. Gross margin expanded to 25.6% while SG&A cost rose by only 30% YoY in 2HFY21. Tax rate remained stable at 31.3%. Net profit margin expanded to 14% in 2HFY21 from 12.3% in 2HFY19 and 6.3% in 2HFY20. All the figures in 2HFY21 set a record high in terms of half-year earnings.
- Sales breakdown by products: automatic lathe is the dominating product, accounting for 87% of total sales with 60.4% YoY growth. Machining centre rose by 83% YoY, a high growth with low base, but only contributing 6.3% of total sales. Sales breakdown by geography: domestic sales contribution ramped up to 85.7% in FY21, a record high, from 6.7% in FY16. Overseas market demand was dragged down by the pandemic while domestic demand contributed the major growth.
- Dividend payout ratio is 34% in 2HFY21, same as that in 2HFY20. The total cash dividend implies a +66.4% YoY growth in 2HFY21 compared to 2HFY20.

Key Risks to Rating

- Raw material price hike may bring some pressures on gross margin.

Valuation

- New order maintains strong growth momentum, with over 100% YoY growth in April-May. We roll over to FY22 and apply 12x FY22E P/E to derive the new TP. The new target P/E multiple represents 20% discount to the previous 15x due to concerns about low liquidity. The new TP of HK\$16.90 implies 48% upside, reiterate **BUY** rating.

Investment Summary

Year ended 31 Mar	2020	2021	2022E	2023E	2024E
Revenue (RMB m)	1,944	3,117	3,712	4,262	4,769
Reported net profit (RMB m)	156	392	463	533	598
Core EPS (RMB)	0.409	1.029	1.216	1.400	1.571
Fully diluted EPS (RMB)	0.409	1.029	1.216	1.400	1.571
Consensus EPS (RMB)	-	-	0.947	0.840	-
Core P/E (x)	23.2	9.2	7.8	6.8	6.0
Fully diluted P/E (x)	23.2	9.2	7.8	6.8	6.0
EV/EBITDA (x)	7.5	4.3	4.0	4.4	2.6
P/B (x)	2.5	2.1	1.7	1.5	1.3
DPS (RMB)	0.300	0.400	0.365	0.420	0.471
Yield (%)	3.2	4.2	3.8	4.4	5.0
ROE (%)	10.6	22.3	22.2	21.6	20.8

Source: Company data, BOCI Research estimates

Figure 1. Annual Results Summary

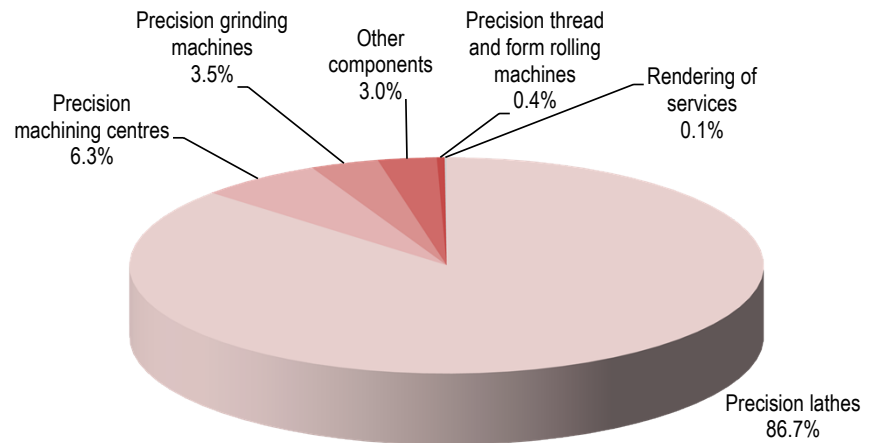
(RMB m)	FY16	FY17	FY18	FY19	FY20	FY21	BOCI FY21E	Actual vs BOCIE (%)	Consensus FY21E	Actual vs consensus (%)
Turnover	1,357	1,636	2,314	2,851	1,944	3,117	2,576	21.0	2,730	14.2
(YoY %)	(34.0)	20.5	41.4	23.2	(31.8)	60.4	32.6		40.5	
Gross profit	217	291	472	713	392	765	600	27.5	605	26.6
(YoY %)	(46.8)	34.1	62.1	51.0	(45.0)	95.2	53.1		54.2	
Gross margin (%)	16.0	17.8	20.4	25.0	20.2	24.6	23.3		22.2	
SG&A	(115)	(118)	(170)	(243)	(184)	(221)				
(YoY %)	(22.7)	2.6	43.3	43.0	(24.0)	19.8				
Percentage of revenue (%)	8.5	7.2	7.3	8.5	9.5	7.1				
Operating profit	102	173	303	470	208	545				
(YoY %)	(60.7)	70.0	75.0	55.5	(55.8)	162.0				
Operating margin (%)	7.5	10.6	13.1	16.5	10.7	17.5				
Finance cost	(18)	(13)	(10)	0	(0)	(1)				
(YoY %)	(12.6)	(28.7)	(19.9)	(100.0)	na	1202.6				
Percentage of revenue (%)	1.3	0.8	0.5	0.0	0.0	0.0				
Pre-tax profit	78	160	271	484	223	570				
(YoY %)	(69.1)	104.5	69.3	78.7	(53.8)	155.2				
Pre-tax profit margin (%)	5.8	9.8	11.7	17.0	11.5	18.3				
Tax credit/(expense)	(22)	(47)	(77)	(116)	(68)	(178)				
(YoY %)	(70.1)	111.4	61.8	51.5	(41.8)	163.8				
Effective income tax rate (%)	28.7	29.6	28.3	24.0	30.3	31.3				
Minority interests	0	0	0	0	0	0				
Net profit	56	113	194	368	156	392	250	56.7	261	50.2
(YoY %)	(68.7)	101.7	72.4	89.4	(57.6)	151.5	60.5		67.5	
Net margin (%)	4.1	6.9	8.4	12.9	8.0	12.6	9.7		9.6	
Net operating cash flow (RMB m)	50	183	204	273	176	301				
Dividends (HK\$ m)	17.5	26.6	50.4	133.5	114.4	152.4				
Dividend payout ratio (%)	25.7	19.6	22.3	32.7	64.6	32.7				
Diluted EPS (RMB)	0.21	0.38	0.57	0.96	0.41	1.03				
DPS (HK\$)	0.06	0.09	0.15	0.35	0.30	0.40				
Cash balance (RMB m)	96.1	130.8	334.5	414.9	342.1	437.7				
Government grants	10.8	3.1	5.3	3.9	9.7	25.1				
FX gains/(losses)	(16.0)	(2.1)	0.0	10.5	0.0	0.0				
IPO expenses	3.1	9.7	13.0	0.0	0.0	0.0				

Source: Company data, BOCI Research estimates

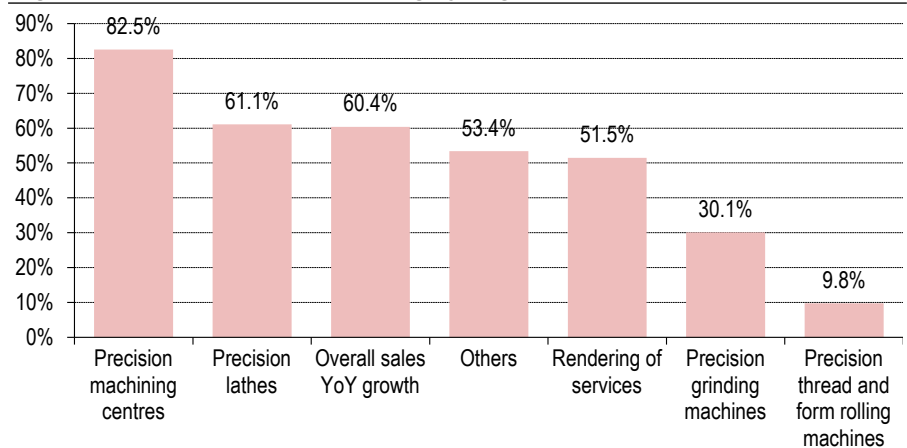
Figure 2. Semi-annual Results Summary

(RMB m)	1HFY18	2HFY18	1HFY19	2HFY19	1HFY20	2HFY20	1HFY21	2HFY21
Turnover	1,199	1,116	1,643	1,208	1,076	868	1,379	1,738
(YoY %)	64.8	22.8	37.0	8.3	(34.5)	(28.2)	28.2	100.3
(HoH %)	31.9	(6.9)	47.2	(26.4)	(11.0)	(19.3)	58.9	26.1
Gross profit	235	238	414	299	235	157	321	445
(YoY %)	85.9	43.9	76.3	26.0	(43.2)	(47.4)	36.6	182.7
(HoH %)	42.2	1.2	74.1	(27.6)	(21.6)	(33.0)	103.8	38.7
Gross margin (%)	19.6	21.3	25.2	24.8	21.8	18.1	23.3	25.6
SG&A	(83)	(86)	(133)	(109)	(96)	(88)	(106)	(115)
(YoY %)	52.4	35.4	59.7	26.8	(27.8)	(19.5)	10.3	30.2
(HoH %)	30.8	3.5	54.3	(17.8)	(12.2)	(8.3)	20.3	8.3
Percentage of revenue (%)	7.0	7.7	8.1	9.1	8.9	10.2	7.7	6.6
Operating profit	151	151	280	190	139	69	215	330
(YoY %)	111.5	49.3	85.4	25.5	(50.6)	(63.6)	54.8	376.8
(HoH %)	49.3	(0.0)	85.4	(32.3)	(27.0)	(50.1)	210.2	53.7
Operating profit margin (%)	12.6	13.6	17.1	15.7	12.9	8.0	15.6	19.0
Finance cost	(10)	(1)	0	0	(0)	(0)	(1)	(0)
(YoY %)	45.7	(91.3)	(100.0)	(100.0)	na	na	nm	nm
(HoH %)	58.7	(94.5)	(100.0)	na	na	(44.9)	nm	nm
Percentage of revenue (%)	0.8	0.0	0.0	0.0	0.0	0.0	0.1	0.0
Pre-tax profit	142	129	293	191	146	78	217	353
(YoY %)	128.0	32.0	106.8	47.9	(50.3)	(59.2)	49.1	353.7
(HoH %)	44.8	(8.9)	126.9	(34.8)	(23.7)	(46.5)	178.7	62.8
Pre-tax profit margin (%)	11.8	11.6	17.8	15.8	13.5	9.0	15.7	20.3
Tax credit/(expense)	(41)	(36)	(74)	(43)	(45)	(23)	(69)	(110)
(YoY %)	123.3	23.4	81.0	18.2	(39.1)	(46.5)	53.2	381.3
(HoH %)	39.3	(11.4)	104.4	(42.2)	5.3	(49.2)	201.4	59.7
Effective income tax rate (%)	28.7	27.9	25.1	22.3	30.8	29.3	31.6	31.0
Minority interests	0	0	0	0	0	0	0	0
Net profit	101	93	219	148	101	55	148	244
(YoY %)	130.0	35.6	117.1	59.3	(54.1)	(62.9)	47.3	342.3
(HoH %)	47.1	(7.8)	135.6	(32.4)	(32.1)	(45.3)	169.4	64.2
Net profit margin (%)	8.4	8.3	13.4	12.3	9.4	6.3	10.8	14.0
Diluted EPS (RMB)	0.33	0.24	0.58	0.38	0.26	0.14	0.39	0.64
Dividend (RMB m)	0.0	50.4	76.3	57.2	57.2	57.2	57.1	95.2
Dividend payout ratio (%)	0.0	47.1	30.3	33.6	49.4	90.4	33.5	34.0
DPS (RMB)	0.00	0.16	0.20	0.15	0.15	0.15	0.15	0.25
Government grants (RMB m)	0.1	5.2	0.3	3.7	8.1	1.6	1.8	23.3
Percentage of whole year	1HFY18	2HFY18	1HFY19	2HFY19	1HFY20	2HFY20	1HFY21	2HFY21
Turnover	51.8	48.2	57.6	42.4	55.4	44.6	44.2	55.8
Net profit	52.0	48.0	59.7	40.3	64.7	35.3	37.9	62.1

Source: Company data, BOCI Research estimates

Figure 3. Sales Breakdown by Product (FY21)


Source: Company data, BOCI Research

Figure 4. Sales YoY Growth Ranking by Segment


Source: Company data, BOCI Research

Figure 5. Sales Breakdown by Region

Revenue breakdown (RMB m)	FY16	FY17	FY18	FY19	FY20	FY21
China	773	1,042	1,647	1,974	1,440	2,670
Overseas	585	595	668	877	504	447
Total revenue	1,357	1,636	2,314	2,851	1,944	3,117

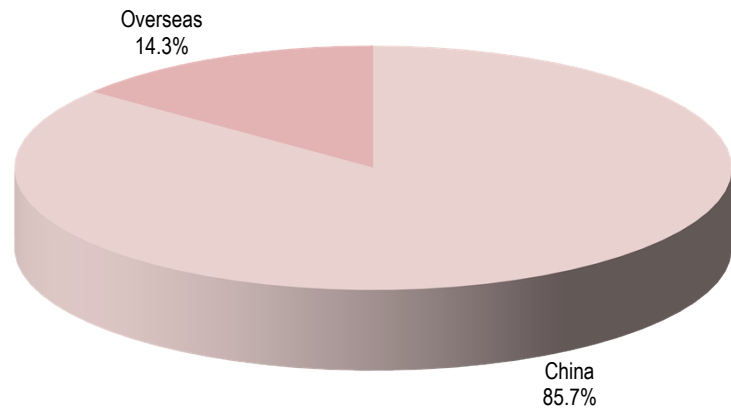
YoY growth (%)

China	NA	34.8	58.1	19.9	(27.0)	85.4
Overseas	NA	1.7	12.3	30.8	(42.6)	(11.3)
Total revenue	NA	20.6	41.4	23.0	(31.8)	60.4

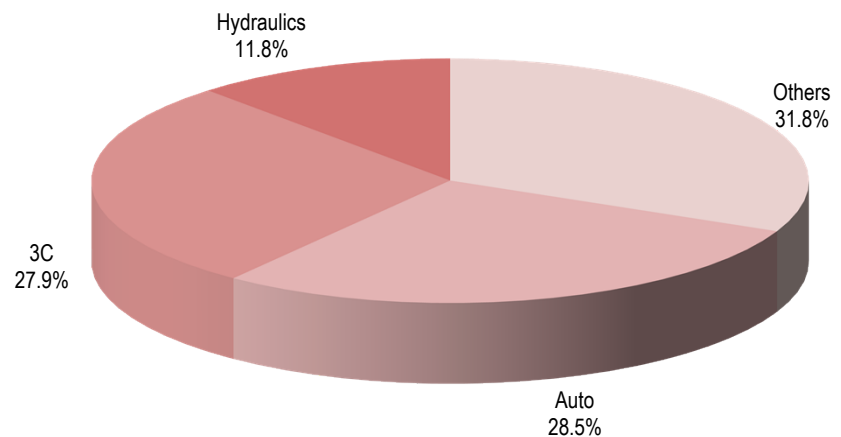
% of total revenue (%)

China	57.0	63.7	71.2	69.2	74.1	85.7
Overseas	43.1	36.3	28.8	30.8	25.9	14.3
Total revenue	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company data, BOCI Research

Figure 6. Sales Breakdown by Region (FY21)


Source: Company data, BOCI Research

Figure 7. Breakdown of Downstream Sectors


Source: Company data, BOCI Research

Figure 8. Earnings Revisions

		Before			After		
(RMB m)	FY21E	FY22E	FY23E	FY22E	FY23E	FY24E	
Revenue	2,576	2,839	3,126	3,712	4,262	4,769	
YoY (%)	32.6	10.2	10.1	19.1	14.8	11.9	
Gross profit	600	659	719	884	1,019	1,149	
YoY (%)	53.1	9.7	9.2	15.4	15.3	12.8	
Gross margin (%)	23.3	23.2	23.0	23.8	23.9	24.1	
Net profit	250	284	320	463	533	598	
YoY (%)	60.5	13.6	12.7	18.2	15.1	12.2	
Net margin (%)	9.7	10.0	10.2	12.5	12.5	12.5	

Source: Company data, BOCI Research estimates

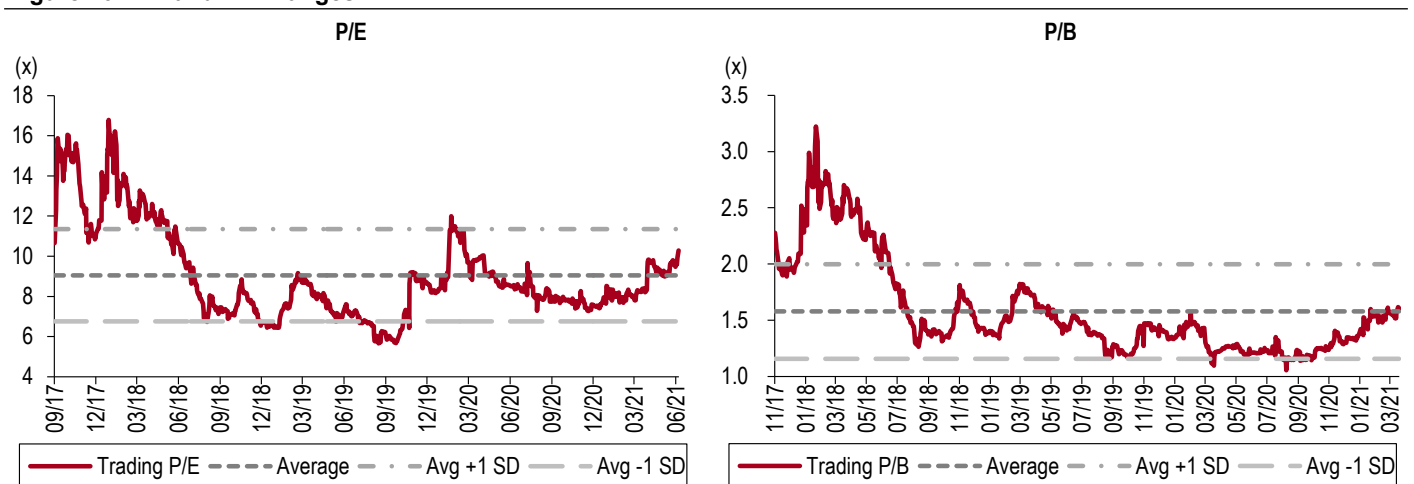
Figure 9. Peer Valuation Comparison

Stock code	Company	Closing price (local ccy)	Market cap (US\$ m)	P/E (x)			P/B (x)			ROE (%)			EV/EBITDA (x)		
				FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
1651 HK	Precision Tsugami (China) Corporation Ltd	11.40	559	9.2	7.0	6.8	2.1	1.7	1.5	22.3	22.2	21.6	4.3	4.0	4.4
1882 HK	Haitian International Hldgs	26.20	5,387	14.6	12.4	10.9	2.4	2.1	2.0	16.2	17.3	18.1	10.6	8.4	7.2
	Average			11.9	9.7	8.9	2.2	1.9	1.7	19.2	19.7	19.8	7.4	6.2	5.8
	China machinery														
				FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
1651 HK	Precision Tsugami (China) Corporation Ltd	11.40	559	9.2	7.0	12.3	2.1	1.7	2.1	22.3	22.2	16.3	4.3	4.0	5.8
1882 HK	Haitian International Hldgs	26.20	5,387	14.6	12.3	11.1	2.4	2.1	1.8	16.2	18.1	17.6	10.6	7.8	7.0
2398 HK	Good Friend Int'l Hldgs Inc.	0.98	51	NA	NA	NA	0.7	NA	NA	NA	NA	NA	NA	NA	NA
601882 CH	Haitian Precision	15.20	1,278	43.7	33.6	23.9	5.6	NA	NA	NA	NA	NA	NA	NA	NA
000410 CH	Shenyang Machine Tool	4.39	1,090	NA	NA	NA	27.1	NA	NA	NA	NA	NA	NA	NA	NA
000837 CH	Qinchuan Machine Tool	7.48	777	20.3	NA	NA	2.3	NA	NA	NA	NA	NA	NA	NA	NA
	Average			21.9	17.6	15.8	6.7	1.9	2.0	19.2	20.1	16.9	7.4	5.9	6.4
	Global peers *														
6101 JP	Tsugami Corporation	1,700.00	858	18.1	19.9	14.2	2.3	NA	NA	NA	11.8	18.5	NA	10.8	7.3
6141 JP	DMG Mori	1,986.00	2,281	135.3	36.2	15.0	3.5	1.3	1.2	1.3	4.6	11.1	13.8	11.0	7.5
6113 JP	Amada Holdings	1,135.00	3,747	21.6	28.7	16.4	0.9	0.9	0.9	5.9	3.3	5.8	6.6	8.9	6.2
6103 JP	Okuma Corp	5,400.00	1,656	82.1	55.8	16.8	1.0	1.0	1.0	6.0	1.6	5.8	6.5	12.3	6.5
6135 JP	Makino Milling Machine	4,410.00	1,007	NA	NA	27.3	0.7	0.7	0.7	0.1	(2.7)	3.2	9.7	32.8	7.4
6134 JP	Fuji Machine	2,559.00	2,269	13.9	14.3	12.6	1.3	1.3	1.2	8.7	9.8	10.7	7.6	6.6	5.4
6121 JP	Takisawa Machine Tool	1,141.00	69	NA	NA	NA	0.5	NA	NA	NA	NA	NA	NA	NA	NA
6155 JP	Takamatsu Machinery	697.00	70	NA	NA	NA	0.5	NA	NA	NA	NA	NA	NA	NA	NA
6473 JP	JTEKT Corp	1,185.00	3,650	503.0	NA	10.2	0.7	0.9	0.7	3.1	(1.2)	6.7	5.9	8.6	4.8
6954 JP	FANUC Corp	26,880.00	48,881	54.7	57.2	35.1	3.6	3.7	3.5	5.3	6.5	10.3	36.2	31.7	21.1
6609 TT	Taiwan Takisawa Technology	32.20	85	60.9	NA	NA	1.1	NA	NA	NA	NA	NA	NA	NA	NA
4513 TT	Falcon Machine Tools	10.00	28	NA	NA	NA	1.0	NA	NA	NA	NA	NA	NA	NA	NA
	Average			111.2	35.4	18.4	1.4	1.4	1.3	4.4	4.2	9.0	12.3	15.3	8.3

Source: Data of various companies, Bloomberg, BOCI Research estimates. Closing prices are as of 28 June 2021.

Note: Tsugami China adopts a financial year ending 31 March, therefore FY21 for Tsugami China is equivalent to 2020 for Haitian.

* Closing prices are as of 25 June 2021 for global peers.

Figure 10. P/E and P/B Ranges


Source: Bloomberg, BOCI Research

Income Statement (RMB m)

Year ended 31 Mar	2020	2021	2022E	2023E	2024E
Revenue	1,944	3,117	3,712	4,262	4,769
Cost of sales	(1,551)	(2,352)	(2,829)	(3,243)	(3,620)
Operating exp.	(184)	(221)	(263)	(303)	(340)
EBITDA	254	589	681	785	891
Depr & amortisation	46	44	61	70	81
Operating profit (EBIT)	208	545	621	715	810
Net interest inc./(exp.)	(0)	(1)	0	0	0
Other gains/(losses)	16	27	25	31	27
Pre-tax profit	223	570	646	746	837
Tax on profit	(68)	(178)	(183)	(213)	(238)
Min. int./others	0	0	0	0	0
Net profit	156	392	463	533	598
Core net profit	156	392	463	533	598
EPS (RMB)	0.409	1.029	1.216	1.400	1.571
Core EPS (RMB)	0.409	1.029	1.216	1.400	1.571
DPS (RMB)	0.300	0.400	0.365	0.420	0.471
Revenue YoY %	(31.8)	60.4	19.1	14.8	11.9
EBIT YoY %	(55.8)	162.0	14.0	15.2	13.2
EBITDA YoY %	(50.6)	132.1	15.7	15.3	13.4
Core net profit YoY%	(57.6)	151.5	18.2	15.1	12.2
Fully diluted EPS YoY%	(57.6)	151.9	18.2	15.1	12.2

Source: Company data, BOCI Research estimates

Cash-flow Statement (RMB m)

Year ended 31 Mar	2020	2021	2022E	2023E	2024E
Pre-tax profit	223	570	646	746	837
Depr. & amortisation	46	44	61	70	81
Net interest expenses	0	1	0	0	0
Chg. in working capital	(21)	(216)	223	(1,045)	777
Tax paid	(72)	(114)	(183)	(213)	(238)
Other operating activ's	0	15	2	11	10
CF from operations	176	301	748	(430)	1,466
CAPEX	(151)	(99)	(125)	(143)	(156)
Decr./(incr.) in invest.	1	0	0	0	0
Other investing activ's	(116)	129	0	0	0
CF from investing	(266)	30	(125)	(143)	(156)
Net incr. in debt	0	0	0	0	0
Dividends paid	(102)	(100)	(139)	(160)	(179)
Other financing activ's	(3)	(6)	0	0	0
CF from financing	(105)	(106)	(139)	(160)	(179)
Change in cash	(195)	225	484	(733)	1,130
Cash at start of year	400	205	430	915	181
Free cash flow to firm	(86)	342	623	(573)	1,310
Free cash flow to equity	(86)	341	623	(573)	1,310

Source: Company data, BOCI Research estimates

Balance Sheet (RMB m)

As at 31 Mar	2020	2021	2022E	2023E	2024E
Cash & cash equiv.	342	438	922	189	1,319
Receivables	438	988	460	1,291	669
Inventories	619	675	405	1,550	632
Other current assets	19	34	34	34	34
Total current assets	1,418	2,136	1,822	3,064	2,654
Fixed assets	452	508	572	645	720
Intangible assets	4	4	4	4	4
Other long term assets	508	569	634	709	787
Total long-term assets	512	573	638	714	791
Total assets	1,929	2,709	2,460	3,778	3,445
Creditors	297	554	193	873	317
Short-term debt	0	0	0	0	0
Other current liabs.	142	341	128	388	188
Total current liabs.	439	895	321	1,261	505
Long-term borrowings	0	0	0	0	0
Other long-term liabs.	21	55	49	54	58
Share capital	320	320	320	320	320
Reserves/others	1,149	1,439	1,770	2,143	2,562
Shareholders' equity	1,470	1,758	2,090	2,463	2,882
M.I./Pref. shr./Oth	(1)	0	0	0	0
Total liabs. & equity	1,929	2,709	2,460	3,778	3,445
Per share (RMB)					
Book value	3.9	4.6	5.5	6.5	7.6
Tangible assets	3.8	4.6	5.5	6.5	7.6
Net debt/(cash)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, BOCI Research estimates

Key Ratios

Year ended 31 Mar	2020	2021	2022E	2023E	2024E
Profitability (%)					
EBITDA margin	13.1	18.9	18.4	18.4	18.7
EBIT margin	10.7	17.5	16.7	16.8	17.0
Pre-tax margin	11.5	18.3	17.4	17.5	17.5
Net profit margin	8.0	12.6	12.5	12.5	12.5
Liquidity (x)					
Current ratio	3.2	2.4	5.7	2.4	5.3
Interest coverage	2,734.7	550.1	NM	NM	NM
Net debt to equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Quick ratio	1.8	1.6	4.4	1.2	4.0
Valuation (x)					
P/E	23.2	9.2	7.8	6.8	6.0
Core P/E	23.2	9.2	7.8	6.8	6.0
Core P/E @ target price	34.4	13.7	11.6	10.0	8.9
P/B	2.5	2.1	1.7	1.5	1.3
P/FCF	146.6	17.9	5.8	NM	2.8
EV/EBITDA	7.5	4.3	4.0	4.4	2.6
Activity ratios					
Inventory days	145.6	104.8	52.2	174.5	63.7
Accounts receivables days	82.2	115.7	45.3	110.6	51.2
Accounts payables days	55.8	64.9	19.0	74.8	24.3
Returns (%)					
Dividend payout ratios	73.4	38.9	30.0	30.0	30.0
Return on equity	10.6	22.3	22.2	21.6	20.8
Return on assets	7.5	13.8	18.1	13.5	16.8
Return on capital employed	14.1	31.0	29.7	29.0	28.1

Source: Company data, BOCI Research estimates

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