

China Automotive Systems, Inc.

NasdaqCM: CAAS

Maintaining Rating & Target**Buy, \$7.00**

April 11, 2022

\$5 Million Share Repurchase Plan Announced**MARKET DATA**

| | |
|------------------|-----------|
| Share Price: | 2.97 |
| Market Cap: | 91.62 M |
| 52wk Range: | 2.20—5.49 |
| Ave. Volume: | 34,000 |
| Basic S/O: | 30.85 M |
| Diluted S/O: | 30.89 M |
| Float: | 11.66 M |
| Institutional %: | 5% |
| Insider %: | 63% |

FINANCIAL DATA (mrq)

| | |
|---------------------|----------|
| Cash & Equivalents: | 161.26 M |
| ST Debt: | 47.59 M |
| LT Debt: | 21.07 M |
| Book Value: | 336.89 M |
| EBITDA (ttm): | 32.72 M |
| FFO (ttm): | 28.27 M |

Auditor: PricewaterhouseCoopers ZhongTian

| USD | 2020A | 2021A | 2022e | 2023e |
|-----|-------|-------|-------|-------|
|-----|-------|-------|-------|-------|

Revenue (in Millions)

| | | | | |
|------------|---------------|---------------|---------------|---------------|
| Mar | 73.56 | 130.34 | 126.27 | 131.35 |
| Jun | 83.18 | 120.60 | 125.56 | 129.66 |
| Sep | 114.42 | 108.23 | 127.09 | 131.18 |
| Dec | 146.48 | 138.82 | 130.53 | 135.50 |
| REV | 417.64 | 497.99 | 509.45 | 527.68 |
| <i>P/S</i> | <i>0.22</i> | <i>0.18</i> | <i>0.18</i> | <i>0.17</i> |

Diluted EPS (GAAP)

| | | | | |
|------------|---------------|-------------|-------------|-------------|
| Mar | 0.00 | 0.10 | 0.07 | 0.09 |
| Jun | (0.13) | 0.10 | 0.08 | 0.09 |
| Sep | 0.08 | (0.01) | 0.09 | 0.10 |
| Dec | (0.10) | 0.16 | 0.09 | 0.09 |
| EPS | (0.16) | 0.36 | 0.33 | 0.36 |
| <i>PE</i> | <i>N/A</i> | <i>8.25</i> | <i>9.00</i> | <i>8.25</i> |

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\$5,000,000 Share Repurchase Announced. This morning, the Company announced a \$5,000,000 share repurchase plan that covers the next twelve months. The plan approved open market purchases at prices not to exceed \$4.00 per share. We have noted for some time that CAAS trades at a substantial discount to fair value given its Balance Sheet and EBITDA generation and believe this is a prudent use of funds. We will update our model as updates on the amounts repurchased are announced, but do expect the Company to buy up to the \$4.00 level.

Maintaining Rating & Target. The \$5 million share buyback looks to be a prudent use of funds given the current stock price. We once again reiterate our Buy rating and \$7.00 target price on China Automotive Systems. Our target price is based on the average of a P/E multiple of roughly 10 times our forward twelve month diluted EPS estimate of \$0.33 and an EV/EBITDA multiple of roughly 6.0 times our forward twelve month EBITDA estimate of \$38.4 million.

RISKS

Income and Incentive Driven

Auto sales in China are dependent on the continued growth of personal income and wealth, the availability of credit, continued construction of roads, and government incentives.

Margin Compression

CAAS continues to see downward pricing pressure on its products and higher raw material and labor expenses, any of which could result in margin compression over time. The Company has continued to invest in automated equipment to reduce production time, direct labor and material waste, as well as developing new products and entering new markets, but there are no assurances this spending will ease margin concerns.

Related Party Transactions

CAAS has ongoing dealings with related parties that are controlled by Chairman Chen. Total sales to related in 2021 totaled \$65.1 million, up from \$53.2 million in the year ago period, while purchases rose from \$23.9 million to \$31.6 million in same nine month period of 2021. In Q1:17 it lent roughly \$29 million at cost+2% for one year to a related party, which was repaid. We do not view these related transactions as a concern as Mr. Chen has historically provided goods and services to CAAS at prices that are shareholder friendly, including his below market sale of 35.5% of Henglong in 2008.

Reverse Takeover

CAAS is a Chinese-based company that went public in 2003 via a reverse takeover, which carries a negative stigma for some investors. Since going public the only accounting-related issue was incorrectly accounting for non-cash derivative changes on its convertible debt.

Customer Concentration

CAAS' five largest customers accounted for 44.8% of sales in 2021, down from 47.1% in the year ago period.

Reliance on China

Roughly 65% of the Company's sales are derived in China. Decreases in the growth of the Chinese economy, a reduction of consumer incentives, a slowing of the rate of growth of auto sales in China, or a continued spread of COVID-19 could have a negative impact on CAAS's sales.

Currency Depreciation

Depreciation of the RMB against the USD would result in lower reported sales and earnings in USD. Margins may also be effected by fluctuations in the Brazilian Real against the RMB.

Highly Competitive Industry

The auto parts industry is highly competitive globally, as auto sales struggle to grow and manufacturers continue to seek the lowest priced, quality parts. This market is more open in China than others as the government does not require foreign investors/companies to have a local JV partner to compete.

PCAOB and Delisting Risk

The US Government is currently exploring the potential of delisting any company that does not have PCAOB audits for two years, which more or less targets Chinese companies, including CAAS. It is currently unclear if delistings will commence and what the impact might be for CAAS.

Hanlin Chen's Stock Ownership

Mr. Chen, Chairman of CAAS, owns 17.85 million common shares, or roughly 57.9% of the total shares outstanding giving him control over the future of the Company. On May 15, 2017, Chairman Chen announced a proposal to take CAAS private for \$5.45 in cash, which was pulled August 16, 2018.

Supply Chain Issues

The Company has been subject to various supply chain issues since the start of COVID-19, including the current chip shortage, which has had and could continue to have a negative impact on future results.

Illiquid Stock

CAAS has traded less than \$500,000 per day, which may make it difficult to buy or sell in size without bringing about a substantial change in the stock price.

Government Interference

Changes in policies related to doing business between the U.S. and China, especially in regards to the auto industry could have a negative impact on CAAS.

ESTIMATED INCOME STATEMENT

| | Q1:21A | Q2:21A | Q3:21A | Q4:21A | 2021A | Q1:22e | Q2:22e | Q3:22e | Q4:22e | 2022e | Q1:23e | Q2:23e | Q3:23e | Q4:23e | 2023e |
|---|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|-----------------|---------------|---------------|
| Product Sales | 130,341 | 120,604 | 108,231 | 138,817 | 497,993 | 126,267 | 125,564 | 127,092 | 130,527 | 509,449 | 131,349 | 129,659 | 131,177 | 135,499 | 527,683 |
| COGS | 110,593 | 104,775 | 91,439 | 119,107 | 425,914 | 106,931 | 105,459 | 106,244 | 109,025 | 427,659 | 109,862 | 108,204 | 109,452 | 113,474 | 440,992 |
| Gross Profit | 19,748 | 15,829 | 16,792 | 19,710 | 72,079 | 19,336 | 20,105 | 20,848 | 21,502 | 81,790 | 21,486 | 21,455 | 21,725 | 22,025 | 86,691 |
| Gain on Other Sales | 1,316 | 725 | 487 | 1,840 | 4,368 | 1,069 | 1,055 | 1,062 | 1,090 | 4,277 | 1,099 | 1,082 | 1,095 | 1,135 | 4,410 |
| Selling Expenses | 5,609 | 4,446 | 4,802 | 3,421 | 18,278 | 5,222 | 5,203 | 5,245 | 5,339 | 21,010 | 5,362 | 5,316 | 5,357 | 5,476 | 21,511 |
| General & Admin. Expenses | 4,615 | 6,063 | 6,174 | 7,571 | 24,423 | 6,657 | 6,639 | 6,677 | 7,089 | 27,063 | 6,784 | 6,741 | 6,779 | 7,226 | 27,531 |
| R&D Expenses | 6,680 | 5,926 | 5,712 | 9,910 | 28,228 | 6,945 | 6,906 | 6,990 | 7,179 | 28,020 | 7,224 | 7,131 | 7,215 | 7,452 | 29,023 |
| Operating Income | 4,160 | 119 | 591 | 648 | 5,518 | 1,581 | 2,411 | 2,998 | 2,984 | 9,975 | 3,215 | 3,349 | 3,468 | 3,004 | 13,037 |
| EBITDA | 10,792 | 6,692 | 7,160 | 8,075 | 32,719 | 8,452 | 9,313 | 9,896 | 10,782 | 38,444 | 30,700 | 4,333 | (10,539) | 18,435 | 42,929 |
| Other Income, Net | 1,723 | 1,506 | 2,407 | 1,032 | 6,668 | 500 | 500 | 500 | 500 | 2,000 | 500 | 500 | 500 | 500 | 2,000 |
| Financial Expenses, Net | (582) | (112) | (1,076) | (2,017) | (3,787) | (349) | (260) | (256) | (73) | (938) | (184) | (209) | (71) | (17) | (481) |
| Income Before Taxes | 5,301 | 1,513 | 1,922 | (337) | 8,399 | 1,732 | 2,651 | 3,242 | 3,411 | 11,037 | 3,531 | 3,639 | 3,898 | 3,488 | 14,555 |
| Income Taxes | (641) | (198) | (2,441) | (724) | (4,004) | (312) | (477) | (584) | (614) | (1,987) | (636) | (655) | (702) | (628) | (2,620) |
| Equity in Earnings of Affiliated | (1,429) | 1,613 | 251 | 5,896 | 6,331 | 246 | 241 | 220 | 193 | 899 | 500 | 500 | 500 | 500 | 2,000 |
| Income Before Minority Interests | 3,231 | 2,928 | (268) | 4,835 | 10,726 | 1,667 | 2,415 | 2,878 | 2,990 | 9,950 | 3,395 | 3,484 | 3,696 | 3,360 | 13,935 |
| Minority Interests | 18 | (279) | 42 | (133) | (352) | (405) | (134) | 33 | 197 | (310) | 666 | 715 | 718 | 709 | 2,808 |
| Accretion - Redemption Value of Min Int | (7) | (7) | (7) | (7) | (28) | - | - | - | - | - | - | - | - | - | - |
| Net Income | 3,206 | 3,200 | (317) | 4,961 | 11,050 | 2,072 | 2,549 | 2,846 | 2,793 | 10,260 | 2,729 | 2,769 | 2,978 | 2,650 | 11,127 |
| Basic EPS | 0.10 | 0.10 | (0.01) | 0.16 | 0.36 | 0.07 | 0.08 | 0.09 | 0.09 | 0.33 | 0.09 | 0.09 | 0.10 | 0.09 | 0.36 |
| Basic S/O | 30,852 | 30,852 | 30,852 | 30,852 | 30,852 | 30,852 | 30,852 | 30,852 | 30,852 | 30,852 | 30,852 | 30,852 | 30,852 | 30,852 | 30,852 |
| Diluted EPS (non-GAAP) | 0.10 | 0.10 | (0.01) | 0.16 | 0.36 | 0.07 | 0.08 | 0.09 | 0.09 | 0.33 | 0.09 | 0.09 | 0.10 | 0.09 | 0.36 |
| Diluted S/O (non-GAAP) | 30,857 | 30,855 | 30,852 | 30,852 | 30,855 | 30,852 | 30,852 | 30,852 | 30,853 | 30,852 | 30,853 | 30,854 | 30,855 | 30,855 | 30,854 |
| | Q1:21A | Q2:21A | Q3:21A | Q4:21A | 2021A | Q1:22e | Q2:22e | Q3:22e | Q4:22e | 2022e | Q1:23e | Q2:23e | Q3:23e | Q4:23e | 2023e |
| Gross Margin | 15.15% | 13.12% | 15.51% | 14.20% | 14.47% | 15.31% | 16.01% | 16.40% | 16.47% | 16.05% | 16.36% | 16.55% | 16.56% | 16.25% | 16.43% |
| Operating Margin | 3.19% | 0.10% | 0.55% | 0.47% | 1.11% | 1.25% | 1.92% | 2.36% | 2.29% | 1.96% | 2.45% | 2.58% | 2.64% | 2.22% | 2.47% |
| EBITDAS Margin | 8.28% | 5.55% | 6.62% | 5.82% | 6.57% | 6.69% | 7.42% | 7.79% | 8.26% | 7.55% | 23.37% | 3.34% | -8.03% | 13.61% | 8.14% |
| Net Margin | 2.46% | 2.65% | -0.29% | 3.57% | 2.22% | 1.64% | 2.03% | 2.24% | 2.14% | 2.01% | 2.08% | 2.14% | 2.27% | 1.96% | 2.11% |

Source: CAAS documents filed with the SEC and Greenridge Global estimates

DISCLOSURES

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| Rating | Count | Percent | <u>I.B. last 12 months</u> | |
|-----------|-------|---------|----------------------------|---------|
| | | | Count | Percent |
| BUY | 9 | 100% | 0 | 0% |
| HOLD | 0 | 0% | 0 | 0% |
| SELL | 0 | 0% | 0 | 0% |
| NO RATING | 0 | 0% | 0 | 0% |

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- SELL:** Describes overvalued stocks we expect to provide a total negative return (capital depreciation + yield) of 15% or more in the next twelve month period.
- NO RATING:** Describes stocks that have their investment rating and/or target price temporarily removed for fundamental or compliance-based reasons.

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| China Automotive Systems, Inc. | — |

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