

WE Solutions Limited

HKSE: 0860

Maintaining Rating & Target Price

BUY, HK\$0.75

November 15, 2019

MARKET DATA

Share Price:	HK\$	0.47
Market Cap:	HK\$	3,369.99 M
52wk Range:	HK\$	0.248 - 0.62
Ave. Volume:		6,800,000
Basic S/O:		7,170.20 M
Fully Diluted S/O:		9,257.36 M
Float:		3,811.99 M
Board Lot:		4,000
Institutional (SDI) %:		23%
Insider %:		24%

FINANCIAL DATA (mrq)

Cash:	HKD	264.04 M
ST Debt:	HKD	75.87 M
LT Debt:	HKD	35.41 M
Book Value:	HKD	4,220.91 M
EBITDA (ttm):	HKD	N/A
CFFO (ttm):	HKD	(178.91) M

Auditor: Ernst & Young

HKD	2018A	2019e	2020e	2021e
Revenue (in Millions)				
Mar	344.12	281.13A	479.16	730.23
Sep	372.90	354.09	613.37	997.23
REV	717.02	635.22	1,092.53	1,727.46
P/S	4.70	5.31	3.09	1.95

Diluted EPS

Mar	(2.54)	(2.29)	0.45	2.32
Sep	0.90	0.01	0.94	2.84
EPS	(1.61)	(0.17)	1.40	5.22
P/E	N/A	N/A	33.57	9.00

Dividend

Mar	0.000	0.000	0.000	0.000
Sep	0.000	0.000	0.000	0.000
DIV	0.000	0.000	0.000	0.000
Yield	0.00%	0.00%	0.00%	0.00%

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WE Enters Commercial EV Production Via JV

WE Enters Commercial EV Production Via JV. Earlier this week, WE announced it formed a JV to design produce, sell and service New Energy Vehicles in China. The JV is comprised of Jiangsu Jemell New Energy Automobile Company Limited (a related company of Jiangsu Jinpeng), GLM and WE. Jemell (57% equity) will contribute RMB100,000,000 in cash and RMB300,000,000 in assets that include automobile production facilities and access to Jinpeng's supply chain and distribution network. Jinpeng currently markets a variety of lower-end electric vehicles, like scooters and rickshaws. GLM will contribute RMB200,000,000 of technology, engineering and design, and the GLM brand name for a 29% interest. WE will contribute RMB65,000,000 in cash and RMB35,000,000 in value of its international assets (Apollo and Ideenion services) for the remaining 14%. This deal gives WE an effective ownership interest in the JV of roughly 40%, while also showing the value held within GLM's engineering and design work. The JV expects to begin commercial production in 2021.

This deal is significant in several regards. First, it validates the business model management has moved WE towards, from developing and marketing its own vehicles to providing outsourced services and taking, in some cases, taking equity in lieu of full upfront fees. Second, it assigns value to GLM for how it values GLM's designs and the GLM brand name, which could become a more valuable asset if these vehicles sell well. Finally, the deal requires a relatively small cash outlay for a business that could rapidly become a large contributor to Net Profit in the near future.

Model Update. This deal more or less validates the Company's business plan and the early stages of growth in our model. As a result, we have made no changes to our model.

Maintaining Rating & Target. After a validating JV announcement, we are reiterating our Buy rating and HK\$0.75 target price on WE Solutions Limited. Our target price is based on a P/E multiple of 17 times our fiscal 2021 Diluted EPS estimate of HK 5.22 cents, discounted one year at 15%. We again note that our model assumes Ideenion's consideration shares will be issued at HK\$0.52 and not a likely higher price which would result in less shares being issued.

RISKS

Shift From Jewelry to Automotive Solutions

There are no assurances that a shift in focus from jewelry sales to automotive solutions will produce the returns the Company and our model anticipates. Additionally, our estimates and outlook on WE could change substantially should either the Apollo or Ideenion acquisitions fail to close.

Delay in Chinese Government Policy Change

The Company expects demand to soar in China upon the elimination of the foreign ownership limits on automakers. Any delay in this policy, which is expected to happen for passenger vehicles in 2022, could reduce demand for AAT services in China.

Dependence on the Global Automotive Sector

WE relies heavily on providing outsourced mobility engineering services and declines in that business from a global economic slowdown or weakness from key brand customers, like Audi, could have an adverse effect on future results.

Business Refocus for AAT Japan

AAT Japan is switching from developing EV solutions to providing outsourced mobility engineering solutions. AAT Japan may not see customer adoption as fast as we are modelling.

Development of New Apollo and De Tomaso Vehicles

There are no assurances future models of the Apollo or De Tomaso brands will be as in demand as current models, which would negatively impact our estimates.

Potential Acquisitions and Dilution

Management is maintaining flexibility in regards to additional acquisitions, which could include De Tomaso, technology companies or physical automotive-related assets. Such acquisitions could be done with shares, as past acquisitions have, and may result in dilution to current shareholders.

Inability to Divest Legacy Assets

We expect the Company to divest its legacy assets. Failure to do so or to receive fair prices could have an adverse effect on WE's financials until completed.

Foreign Currency Exchange

The Company's stock trades in Hong Kong Dollars, while it conducts business in Euros, Japanese Yen and Chinese Yuan. Movement in these currencies could have an adverse effect on financial performance and/or asset values.

Illiquid Trading

The Company's stock trades less than HK\$10,000,000 per day, which may make it difficult to buy or sell a large position in the open market without moving the stock price.

ESTIMATED INCOME STATEMENT

(in 000s of HKD)	H1:19A	H2:19e	2019e	H1:20e	H2:20e	2020e	H1:21e	H2:21e	2021e	H1:22e	H2:22e	2022e
Revenue	03/31/19	09/30/19	635,221	03/31/20	09/30/20	1,092,531	03/31/21	09/30/21	1,727,457	03/31/22	09/30/22	2,695,292
Cost of Sales	281,128	354,093	(438,050)	479,157	613,374	(615,489)	730,225	997,232	(777,511)	1,245,243	1,450,048	(1,113,037)
Gross Profit	(194,100)	(243,950)	197,171	(269,814)	(345,674)	477,042	(323,618)	(453,892)	(499,962)	(506,819)	(606,218)	1,582,254
Other Income & Gains, Net	87,028	110,143	109,857	209,342	267,700	10,000	406,607	543,340	949,947	738,424	843,830	10,000
Selling & Distribution	107,319	2,538	(53,780)	5,000	5,000	(83,497)	5,000	5,000	10,000	5,000	5,000	(167,954)
General & Administrative	(24,474)	(29,306)	(141,290)	(37,526)	(45,971)	(228,449)	(48,256)	(64,851)	(113,107)	(78,065)	(89,889)	(278,449)
Research & Development	(73,930)	(67,360)	(11,473)	(112,488)	(115,961)	(27,649)	(123,476)	(129,002)	(252,478)	(136,446)	(142,003)	(48,705)
Other Expenses, Net	(5,353)	(6,120)	(114,131)	(13,288)	(14,361)	(5,564)	(19,175)	(19,983)	(39,158)	(23,897)	(24,809)	-
Finance Costs	(114,131)	-	(4,107)	-	-	(8,000)	-	-	-	-	-	(5,564)
Share-Losses of Associates	(1,325)	(2,782)	(12,896)	(2,782)	(4,000)	(133,884)	(2,782)	(2,782)	(5,564)	(2,782)	(2,782)	(8,000)
Loss Before Tax	(8,896)	(4,000)	(30,649)	(4,000)	(4,000)	(22,091)	(4,000)	(4,000)	(8,000)	(4,000)	(4,000)	1,083,583
Income Tax Expense	(33,762)	3,113	7,597	44,259	89,624	111,793	213,918	327,723	541,641	498,235	585,348	(178,791)
Net Loss	8,111	(514)	(23,052)	(7,303)	(14,788)	10,477	(35,297)	(54,074)	(89,371)	(82,209)	(96,582)	904,792
Non-Controlling Interests	(25,651)	2,599	(11,521)	36,957	74,836	101,316	178,622	273,648	452,270	416,026	488,766	55,748
Net Loss to Shareholders	(13,154)	1,633	(11,531)	4,427	6,050	101,316	8,875	16,032	24,907	25,733	30,015	849,044
Basic EPS (cents/sh)	(12,497)	966	(11,531)	32,530	68,786	1.40	169,746	257,616	427,363	390,293	458,750	9.38
Diluted S/O	(0.20)	0.01	(0.17)	0.45	0.95	1.40	2.34	2.86	5.25	4.33	5.04	9.38
Basic S/O	6,220,834	7,170,199	6,695,516	7,170,199	7,262,599	7,216,399	7,262,599	9,010,231	8,136,415	9,010,231	9,102,631	9,056,431
Diluted EPS (cents/sh)	(2.29)	0.01	(0.17)	0.45	0.94	1.40	2.32	2.84	5.22	4.30	5.00	9.31
Diluted S/O	6,220,834	7,174,099	6,697,466	7,188,919	7,291,870	7,240,394	7,308,310	9,067,407	8,187,858	9,075,050	9,172,909	9,123,979
Gross Margin	H1:19A	H2:19e	2019e	H1:20e	H2:20e	2020e	H1:21e	H2:21e	2021e	H1:22e	H2:22e	2022e
Net Margin	31.0%	31.1%	31.0%	43.7%	43.6%	43.7%	55.7%	54.5%	55.0%	59.3%	58.2%	58.7%
	-4.4%	0.3%	-1.8%	6.8%	11.2%	9.3%	23.2%	25.8%	24.7%	31.3%	31.6%	31.5%

Source: 0860 documents filed with the HKEX and Greenridge Global estimates

DISCLOSURES

Distribution of Ratings

Rating	Count	Percent	<u>I.B. last 12 months</u>	
			Count	Percent
BUY	8	89%	0	0%
HOLD	0	0%	0	0%
SELL	0	0%	0	0%
NO RATING	1	11%	0	0%

Explanation of Ratings

- BUY: Describes undervalued stocks we expect to provide a total return (capital appreciation + yield) of 15% or more in the next twelve month period.
- HOLD: Describes fully valued stocks we expect to provide a total return (capital appreciation + yield) of plus or minus 15% in the next twelve month period.
- 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.

Analyst Certification

I, William Gregozeski, CFA, certify that all of the views expressed in this research report accurately reflect my personal views about the subject security and subject company. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

Other Disclosures

<u>Company</u>	<u>Disclosures</u>
WE Solutions Limited	—

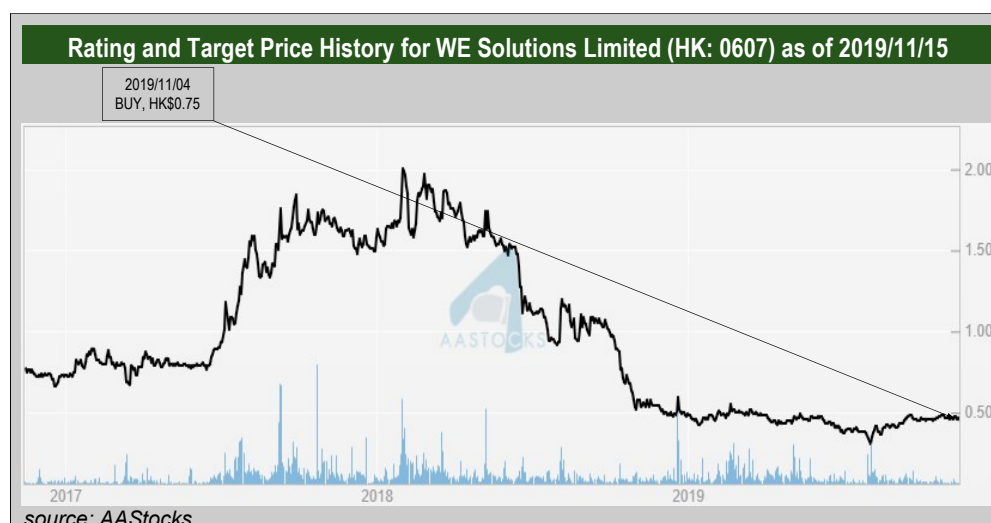
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DISCLOSURES (continued)

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