

WE Solutions Limited

HKSE: 0860

Maintaining Rating & Target Price**BUY, HK\$0.75**

January 13, 2020

MARKET DATA

Share Price:	HK\$	0.47
Market Cap:	HK\$	3,369.99 M
52wk Range:	HK\$	0.248 - 0.56
Ave. Volume:		4,700,000
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	447.61 M
ST Debt:	HKD	104.68 M
LT Debt:	HKD	21.81 M
Book Value:	HKD	4,043.67 M
EBITDA (ttm):	HKD	N/A
CFFO (ttm):	HKD	N/A

Auditor: Ernst & Young

HKD	2018A	2019A	2020e	2021e
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Revenue (in Millions)

Mar	344.12	281.13	320.68	420.86
Sep	372.90	255.23	377.60	573.09
REV	717.02	536.36	698.27	993.96
<i>P/S</i>	<i>4.70</i>	<i>6.28</i>	<i>4.83</i>	<i>3.39</i>

Diluted EPS

Mar	(2.54)	(2.29)	0.12	2.23
Sep	0.90	(8.27)	0.18	2.77
EPS	(1.61)	(9.66)	0.30	5.05
<i>P/E</i>	<i>N/A</i>	<i>N/A</i>	<i>156.67</i>	<i>9.31</i>

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
<i>Yield</i>	<i>0.00%</i>	<i>0.00%</i>	<i>0.00%</i>	<i>0.00%</i>

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860 To Become Apollo Future Mobility Group

860 To Become Apollo Future Mobility Group. The Board announced its formal intent to change the name of the Company to Apollo Future Mobility Group Limited to better reflect its focus on mobility solutions. The name change will be put to a vote upon shareholders approving the Apollo acquisition, both of which are expected to resoundingly pass. The circular is expected by March 6, with the long stop date for the Apollo deal extended to March 31, 2020 with completion due no later than May 30, 2020. The long stop date for the Ideenion acquisition was extended to March 31, 2020, with the circular due by March 16, 2020. Management currently expects both acquisitions will be completed before the end of the fiscal year on March 31.

Jewelry/Watch Business Continues To Shut Down. On December 30, the Company's license for the exclusive wholesale distribution of jewelry products and watches in China was terminated effective December 31. The announcement comes as no surprise as management has been working to refocus on the Company towards mobility solutions, as highlighted in greater detail in our November 4, 2019 report. Management is still working to dispose of its remaining jewelry and watch inventory, which made up nearly all of the Company's HK\$214 million in inventory at the end of September 2019. The Company still has its distribution agreement with Girard-Perregaux in place, but is looking to exit that in the near future.

H2:19 Results Include Impairments of Legacy Businesses. Revenue fell in the second half to HK\$255.2 million as the jewelry and watch business scaled down. Revenue from auto engineering services amounted to HK\$4.2 million. Other expenses in the period totaled over HK\$512 million and included a loan receivable impairment of HK\$257.3, goodwill impairment of HK\$199.3 million, and a decrease in investment property value of HK\$71.7 million, all of which help clear out legacy items ahead of the acquisitions closing. Net Loss for the period was HK\$592.9 million.

Model Update. We made two big changes to our model. The first was significantly scaling back the Jewelry business as management quickly shuts that down. This should be viewed as a net positive to shareholders as its profits fluctuated in recent periods, however it did help cover corporate overhead. The net result of this was a sizable decline in our near term Revenue estimates and a reduction in Net Profit due to the remaining unallocated corporate overhead. The other big change was moving the Jinpeng deal from a license payment to the share of income from JV line. The net effect of the Jinpeng move was minimal.

Maintaining Rating & Target. With no significant changes to the business plan and our model 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\$5.05 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	H2:19A	2019A	H1:20e	H2:20e	2020e	H1:21e	H2:21e	2021e	H1:22e	H2:22e	2022e
	03/31/19	09/30/19		03/31/20	09/30/20		03/31/21	09/30/21		03/31/22	09/30/22	
Revenue	281,128	255,227	536,355	320,676	377,598	698,274	420,860	573,098	993,959	803,028	904,375	1,707,402
Cost of Sales	(194,100)	(199,624)	(393,724)	(154,104)	(167,618)	(321,722)	(163,008)	(239,408)	(402,416)	(354,233)	(402,452)	(756,685)
Gross Profit	87,028	55,603	142,631	166,572	209,980	376,552	257,852	333,690	591,542	448,794	501,923	950,717
Other Income & Gains, Net	107,319	(86,163)	21,156	7,238	5,000	12,238	5,000	5,000	10,000	5,000	5,000	10,000
Selling & Distribution	(24,474)	(19,133)	(43,607)	(26,432)	(29,467)	(55,899)	(30,441)	(40,921)	(71,362)	(56,709)	(62,892)	(119,601)
General & Administrative	(73,930)	(92,802)	(166,732)	(102,488)	(105,661)	(208,149)	(109,987)	(113,754)	(223,741)	(117,991)	(122,010)	(240,001)
Research & Development	(5,353)	(15,838)	(21,191)	(13,288)	(14,361)	(27,649)	(18,215)	(18,543)	(36,758)	(21,497)	(22,009)	(43,505)
Other Expenses, Net	(114,131)	(428,583)	(542,714)	-	-	-	-	-	-	-	-	-
Finance Costs	(1,325)	(2,714)	(4,039)	(3,162)	(3,162)	(6,324)	(3,162)	(3,162)	(6,324)	(3,162)	(3,162)	(6,324)
Share of Losses of JV	-	(5,108)	(5,108)	(8,960)	(35,840)	(44,800)	107,520	161,280	268,800	241,920	282,240	524,160
Share-Losses of Associates	(8,896)	2,897	(5,999)	(4,000)	(4,000)	(8,000)	(4,000)	(4,000)	(8,000)	(4,000)	(4,000)	(8,000)
Loss Before Tax	(33,762)	(591,841)	(625,603)	15,481	22,488	37,969	204,568	319,589	524,157	492,355	575,090	1,067,445
Income Tax Expense	8,111	(1,837)	6,274	(2,554)	(3,711)	(6,265)	(33,754)	(52,732)	(86,486)	(81,239)	(94,890)	(176,128)
Net Loss	(25,651)	(593,678)	(619,329)	12,927	18,778	31,704	170,814	266,857	437,671	411,116	480,200	891,317
Non-Controlling Interests	(13,154)	(783)	(13,937)	4,078	5,702	9,780	8,526	15,683	24,210	25,384	29,667	55,051
Net Loss to Shareholders	(12,497)	(592,895)	(605,392)	8,848	13,076	21,925	162,287	251,174	413,461	385,732	450,534	836,266
Basic EPS (cents/sh)	(0.20)	(8.27)	(9.26)	0.12	0.18	0.30	2.23	2.79	5.08	4.28	4.95	9.23
Basic S/O	6,220,834	7,170,199	6,537,558	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)	(8.26)	(9.66)	0.12	0.18	0.30	2.22	2.77	5.05	4.25	4.91	9.17
Diluted S/O	6,220,834	7,174,099	6,537,558	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
												877,559
												2022e
Gross Margin	31.0%	21.8%	26.6%	51.9%	55.6%	53.9%	61.3%	58.2%	59.5%	55.9%	55.5%	55.7%
Net Margin	-4.4%	-232.3%	-112.9%	2.8%	3.5%	3.1%	38.6%	43.8%	41.6%	48.0%	49.8%	49.0%

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

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DISCLOSURES (continued)

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