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Target Price	HK\$ 3.00
Current Price	HK\$ 1.80
Upside Potential	67%

Market Cap.	HK\$ 2,500 mn US\$ 325 mn
Shares Outstanding	1359.7 mn
Free Float (FF %)	348.1 mn / 25.6%
52 Week Range (HK\$)	2.44 / 0.48
Avg. Daily Value	HK\$ 0.3 mn
HANG SENG Index Level	19,718
Insider Holding %	74.4%



Risk: Above Average

Forecasting and Valuations

(RMB mn except ratio)	FY2022A	FY2023E
Revenue	12,846	16,095
Net Income	443	557
EPS (RMB)	0.33	0.41
EBITDA	857	1012
PE	4.2	3.6
EV/EBITDA	4.3	3.6
P/B	0.66	0.56

Analysts:

 Ketan Chaphalkar
ketan@evaluateresearch.com

 Sandy Mehta, CFA
sandy@evaluateresearch.com

Leoch International Technology Ltd

(842_HK)

Earnings Update Report

Strong Revenue and Stellar Profit Growth in FY2022

Leoch reported strong revenue growth and a stellar profit growth with the overall revenues growing by 14% to RMB12,846 million and net profit growing by 225% to RMB443 mn in FY2022. EPS rose by 225% on a YoY basis in FY2022 to RMB33 cents on account of increase in revenue, drastic reduction in costs and increase in foreign exchange gains. The increase in revenue from batteries contributed to a 25.8% growth rate in the overseas market and 1.9% growth in China's market. The volume delivered in terms of tons for the lead-acid battery business was flat compared to 2021. This indicates that the increase in the selling price of lead-acid batteries has contributed to the rise in revenues for the company.

The company achieved a solid performance in its Recycled Lead business and Power Solutions business with a revenue growth of 18% and 13%, respectively, as compared to 2021. The revenue for Recycled Lead business and Power Solutions business was RMB2,413 million and RMB10,433 million respectively. Also, the contribution from the lithium-ion battery business has started to increase which has the potential to become one of the major growth drivers in the near future for Leoch.

Financial Highlights for FY2022

- **Robust Growth: Net Profit +225%, Revenue +14%**
- **Power Solutions Segment Revenue Up 13% YoY**
- **Reserve Power Battery Sub-Segment Revenue Up 26% YoY**
- **Recycled Lead Business Segment Revenue Up 18% YoY**
- **USA Region Revenue Increases by 43%**
- **Asia Pacific excluding China Region Revenue Increases by 54%**
- **Capital Expenditure - New Investment in Mexico Plant in 2023**
- **Dividend HK10 cents per share, Dividend Yield 6%**

The company's sales of reserve power batteries during 2022 increased by 26.2% compared to 2021 led by strong demand in 5G applications for communication networks and data centers in China. The reserve power segment accounted for 57.6% of the total revenue from sale of batteries for 2022 as compared to 51.5% in 2021.

The company has reclassified the transportation cost from the selling and distribution expenses to cost of sales for better benchmarking within the industry. The gross profit margin remained flat for the power solutions business even after reclassification, while it decreased for the recycled lead business, resulting in a decrease of overall gross profit margin from 13.4% in 2021 to 12.4% in 2022. The decrease for the recycled lead business was primarily a result of increased recycled cost of lead products. If it weren't for the reclassification, the gross profit margin would have increased by 2% for the power solutions business segment while that for the recycled lead business segment would have reduced by 2%.

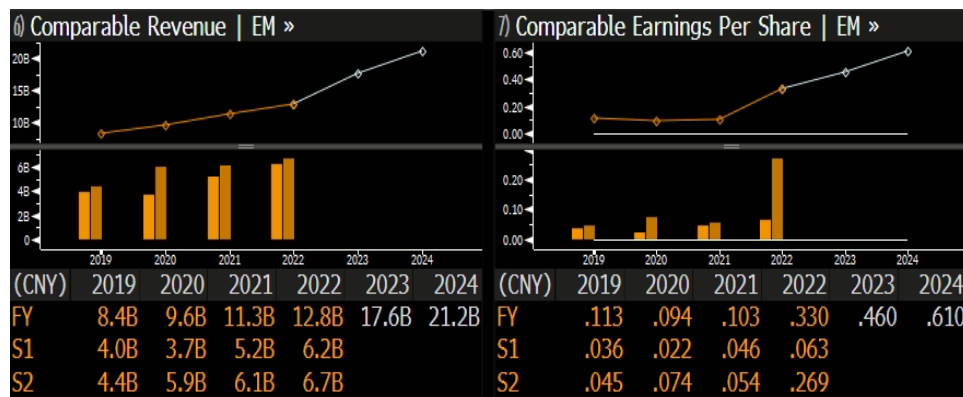
We expect the company to deliver robust growth in terms of volume (shipments in terms of tons) in the year 2023 and beyond, driven by an inherent demand for their innovative products with the strong competitive market position they have in the industry. The secular demand for batteries especially in China is expected to drive revenue growth in 2023. The year 2024 is expected to witness growth in both overseas and China regions with the momentum expected to continue further. With all the headwinds that were seen in 2022 now behind, we see positive tailwinds (China's market) now favoring the company. This will help the company deliver robust revenue growth and also significantly improve profitability signaling that the business is staring at an inflection point in the year 2023.

We had an encouraging meeting with the Senior Management of Leoch at their Hong Kong corporate headquarters recently. During our discussion with the management, they mentioned that the focus for the year 2023 would be primarily on generating higher sales growth along with improvement in the gross, operating and net profit margins.

Product category	2022			2021	
	Revenue RMB'000	Percentage share	Percentage increase/ (decrease)	Revenue RMB'000	Percentage share
Reserve power batteries	6,006,115	46.8%	26.2%	4,758,929	42.1%
SLI batteries	2,860,088	22.3%	(4.9%)	3,005,998	26.6%
Motive power batteries	1,258,319	9.8%	2.9%	1,223,082	10.8%
Others	308,312	2.4%	18.0%	261,210	2.3%
Sub-total	10,432,834	81.3%	12.8%	9,249,219	81.8%
Recycled lead products	2,413,025	18.7%	17.5%	2,053,906	18.2%
Total	12,845,859	100%	13.6%	11,303,125	100%

The company witnessed an uptick in finance costs (up 8.6% YoY) due to rise in interest rates. However, the selling and distribution expenses have decreased by 34% YoY mainly due to the reclassification of transportation cost from selling and distribution expenses to cost of sales during 2022, to provide for better benchmarking with other companies in the industry. Research and development expenses increased by 60% YoY mainly due to performance enhancement of existing products and development of new products in all categories.

The strong growth in revenue from its core battery business and Recycled Lead business segment, during uncertain times, signifies the strong competitive market position of the company. We expect revenues to maintain growth momentum in the 2023 as it has shown resilient growth in 2021 and 2022. We expect the finance costs to remain elevated in 2023, but the increase in revenues and rise in profitability will more than compensate for the increase in 2023. The focus on product innovation is also expected to keep the demand intact as economic environment becomes more favorable going forward. As the Recycled Lead business continues to make up for the lost business in the previous year along with the increased revenues from the battery segment, the overall profitability should improve significantly in FY2023.



To capture tremendous opportunities arising from the 5G era and meet growing demands for compelling power solutions for the current and future market needs, Leoch had already built-up its manufacturing capacity both locally and overseas, with a lithium-ion plant in China and two lead-acid plants in Vietnam in 2019. Now, to further consolidate and strengthen the company's competitiveness in the US market it will launch the first stage of investment in Mexico to establish a battery assembly plant. Due to Mexico's unique geographical location and export specific policy advantages, it is an ideal location for the company to invest for enhancing their competitive advantage in the US market. We believe that despite an inflationary environment and tightening global financial conditions, the company is expected to deliver on growth in FY2023 and beyond to make the best of its opportunities.

Strong FCF Generation; Attractive Dividend and FCF Yield; Net Gearing at Only 25.8% in 2022

As of 31st December 2022, the company had cash and cash equivalents of RMB1,230 million (2021: RMB951.7 million) and bank borrowings of RMB2,710 million (2021: RMB2,372 million). Only RMB68.4 million (2021: RMB329.7 million) out of the total borrowings had a maturity of more than a year while the remaining are repayable within one year. The company is generating very strong cashflows from its operations and it may not be required to borrow further if there is an increased requirement of capital expenditure. But even if the company decides to borrow further for its requirements it is still in a very comfortable position with the net gearing ratio at only 25.8% in 2022 (2021: 24.7%). The company even has the option of aggressively repaying its debt due to strong free cashflow generation. The free cashflow generation is expected to increase further in 2023 as revenue growth picks up further pace along with rise in profitability despite increased capital expenditure requirements due to new investment planned in Mexico this year.

Also, the company has declared a dividend of HK10 cents per share for the financial year ended 2022 which translates into a dividend yield of 6% for the stock with a current price of HK\$1.80. We expect the dividend will only increase in the current and next year as the company gears up for revenue growth coupled with net profit margin expansion. The stock is also looking attractive on a free cash flow yield of 21.8% in 2021 and 22.7% in 2022. The free cash flow yield is only expected to increase in coming years as much of the capital expenditure requirements will be taken care of in the next two years. Once the increased capacity is in place to cater to the demand for its products, in the overseas and domestic markets, the stock will look more attractive on the free cashflow yield.

Maintain Long Term PT of HK\$4.00; Short Term PT of HK\$3.00. 67% Upside

We are extremely bullish on Leoch International Technology stock as our short-term price target of HK\$1.50 per share has been reached within a one-year period from our recommendation. At the current levels, the stock is trading at extremely attractive multiples of just 3.6x P/E and 3.6x EV/EBITDA based on our FY2023 estimated EPS and EBITDA, respectively. Also, the stock trades at extremely attractive multiples of just 3.0x P/E and 2.8x EV/EBITDA based on our FY2024 EPS and EBITDA estimates, respectively.

We have previously revised our short-term price target to HK\$3.00 per share as we feel the business performance will continue its upward growth momentum in FY2023 and beyond, which would re-rate the stock to higher levels. Our revision comes on account of the expected business performance, the net profit, which is expected to increase further in the year 2023. The business performance is expected to be stellar despite the economic conditions not being favorable globally. Our HK\$3.00 price target implies a P/E multiple of 5.9x on our FY2023 EPS estimate of RMB 41 cents and an EV/EBITDA multiple of 2.9x on our FY2023 EBITDA estimate.

We have previously revised our long-term price target to HK\$4.00 per share as we feel the business performance will continue its upward growth momentum in FY2023 and FY2024 as well. Our long-term price target implies a P/E

multiple of 7x on our FY2023 EPS estimate of RMB 46 cents and an EV/EBITDA multiple of 4.9x on our FY2023 EBITDA estimate.

We maintain our previously revised model estimates to reach revenues of RMB16 bn in FY2023 and RMB19.3 bn in FY2024. The net profit is expected to reach RMB556 mn in FY2023 translating into an EPS of HK41 cents. This indicates a solid growth of 25% and 26% in revenues and net profit for FY2023 respectively.

With all the negatives factored into the stock price along with secular tailwinds expected in 2023 due to ongoing 5G network launch, increasing vehicle penetration in China and increasing demand for light electric vehicles, etc., we feel that the stock is staring at an inflection point at current levels and becomes a strong case of an 67% upside in the next one year with a price target of HK\$3.00. Our long-term price target of HK\$4.00 reiterates our conviction in the growth story of the business of Leoch International Technology.

Reserve Power Segment Sustains Growth: Momentum Expected to Continue in 2023

The company's sales of reserve power batteries during 2022 amounted to RMB6,006 million (2021: RMB4,759 million), representing an increase of 26.2% as compared to 2021. This accounted for approximately 57.6% of the total revenue from sale of batteries for 2022 as compared to 51.5% in 2021. The increment in sales revenue of reserve power batteries amounted to RMB1,247.2 million in 2022 (2021: RMB571.8 million increment).

The strong demand for reserve power batteries in 5G applications for communication networks and data centers continued in China throughout 2022, delivering more than 20% growth rate YoY. Overseas market growth was in low single digit due to the uncertain economic environment due to the Russia-Ukraine war along with rising interest rates. The downturn affected the overseas demand for the company's reserve power batteries as the focus on developing 5G projects was diverted by the global economic crisis. With the huge resources deployed in China on research and development for new 5G battery products including lithium-ion battery during the last few years, the company will definitely be able to capture opportunities from the rising 5G life cycle onward.

Sale of SLI batteries segment amounted to RMB2,860 million (2021: RMB3,006 million), a decrease of 4.9% as compared to 2021. This accounted for approximately 27.4% of the total revenue from battery sales in 2022 as compared to 32.5% in 2021. The decrement in sales revenue of SLI batteries amounted to RMB145.9 million in 2022 (2021: RMB122.9 million increment).

The export growth of SLI batteries came to a halt due to the worsening global political and economic environment during the second half of 2022. Although in the second half of 2022, shipment in the PRC market increased by more than 25% as compared to first half, overseas shipment in terms of ton decreased by more than 27% resulting in a small decrease in sales amount. We believe that Leoch being one of the major suppliers of domestic new energy automobile lead-acid batteries, the company has the competitiveness

to enlarge its market share in China, extend its customer bases in car manufacturers and expand after-market sales volume in the future. The company will continue to invest more in technologies related to autonomous driving of smart cars.

The motive power batteries business (which includes but is not limited to applications in electric vehicles, electric forklifts and other battery-driven products) of the company recorded revenue of RMB1,258 million (2021: RMB1,223 million), representing an increase of 2.9% as compared to last year. This accounted for 12.1% of the total revenue from battery sales in 2022 as compared to 13.2% in 2021. The increment in revenue of motive power batteries amounted to RMB35.2 million (2021: RMB108.5 million increment). Overseas growth rate in terms of volume in tons increased by 45% YoY contributed by the company's stable production, high quality products and competitive pricing while overseas manufacturers were suffering from high inflation rate and energy cost.

The company's revenue increased by 43% to RMB2,199 mn in USA and by 54% in Asia Pacific to RMB1,204 mn (excluding China) while China increased by 6% despite slowdown in economic growth. Europe, Middle East and Africa remained stable for 2022.

	2022			2021	
	Revenue RMB'000	Percentage share	Percentage increase	Revenue RMB'000	Percentage share
PRC	7,550,180	58.8%	6.4%	7,094,708	62.8%
EMEA	1,892,764	14.7%	-	1,893,018	16.7%
Americas	2,199,121	17.1%	43.3%	1,534,927	13.6%
Asia-Pacific (other than PRC)	1,203,794	9.4%	54.2%	780,472	6.9%
Total	<u>12,845,859</u>	<u>100%</u>	<u>13.6%</u>	<u>11,303,125</u>	<u>100%</u>

Sharp Recovery in Recycled Lead Business to Continue in FY2023

Revenue from Recycled Lead business rose 18% to RMB2,413 mn in FY2022 (FY2021: RMB2,054 mn). The company's recycled lead business was in full operation and contributed to 18.7% of total sales. Even though the production was in full capacity during 2022, high demand for scrap battery inflated the collection cost, resulting in a lower profit contribution when compared with 2021. It is expected that Recycled Lead business is expected to continue growth in FY2023 and beyond.

New Investment in Mexico Plant for Assembling Batteries

Leoch had already expanded its manufacturing capacity both locally and overseas, with a new lithium-ion plant in China and two new lead-acid plants in Vietnam in 2019. It had made an investment of RMB1.2 bn in the construction of a new lithium-ion battery manufacturing facility in Anhui, China which has already commenced commercial production. This facility allowed the company to accelerate the development of a series of innovative

5G power solutions to meet the ongoing customer demands, seizing opportunities arising from the fast-evolving telecommunications market.

In 2023, the company will launch the first stage of investment in Mexico to establish a battery assembly plant to further strengthen the company's competitiveness in the US market. Due to Mexico's unique geographical location and related export policy advantages, it is a good choice for the company to invest in Mexico for enhancing their competitive advantage in the US market and to better serve their target customers in the Americas.

In 2022, the company had no expansion plan in the production capacity for lead-acid batteries but continued gradually on expanding lithium-ion batteries capacity according to its strategy. In 2022, export business on lithium-ion batteries recorded satisfactory growth and company's next target will be to sharply increase shipment to China in 2023. Following the company's tremendous effort in marketing, R&D and production capacity expansion during the last few years, the company will enter into a fast-growing stage on lithium-ion batteries shipment in China and the overseas market for the next few years.

Focus on Innovation to Generate Higher Revenues and Margins Going Forward

R&D expenditure of the company increased by 60% from RMB239 million for 2021 to RMB383 million in 2022. The increase in expenditure was mainly used for performance enhancement of existing products and development of new products in all categories.

In 2022 the company continued to work on new models of lead-acid and lithium-ion batteries and roll out new products tailor-made for applications in each of the network power and motive market segments. In addition to 5G related application and auxiliary lead-acid battery used in EV, green energy storage is becoming a topical issue. The lithium-ion batteries are used in application areas and systems like large energy storage, small household energy storage, commercial energy storage system, electric energy storage, communication energy storage and motive power storage etc. The company will continue to work closely with international and domestic battery experts and research institutions to perform research on new technologies in different battery products. Resources have been deployed by the company which will continue to boost model yield and increase overall efficiency in view of achieving higher cost competitiveness.

As on 31st December 2022, the company's battery R&D team consisted of more than 350 researchers and related development & sampling technicians. Focus on innovation is expected to sustain the growth momentum in revenues and contribute to higher margins for the company going forward.

Robust Sales Network in more than 100 Countries and Regions

The company has maintained its widespread sales network to distribute its products to more than 100 countries and regions across the World and has established regional sales offices in Beijing, Shenzhen, Zhaoqing, Nanjing, Hong Kong, Singapore, Malaysia, Australia and other Association of Southeast

Asian Nations countries, India, Sri Lanka, the United States, the European Union countries and the United Kingdom. Together with the domestic sales centers in the PRC, the company has more than 80 sales offices and centers around the world. As on 31st December 2022, the company had over 700 dedicated sales and marketing and related supporting employees.

Future Prospects

According to the National Bureau of Statistics, China's gross GDP crossed RMB121 trillion in 2022, with a year-on-year increase of 3%, exceeding the expected 2.7%. China achieved steady economic growth, consumer prices and employment on top of the nation's well-ensured grain and energy security. Behind this achievement, China attained major economic targets in different aspects in terms of high-quality development, covering R&D investment, green energy consumption to high-quality opening-up and maintaining labor market stability. Despite the downward pressure in 2022, overall economic and social development was stable and healthy. In 2023, China has set the GDP growth target at 5%, revealing that the government is expecting overall recovery and improvement ahead.

The January 2023 World Economic Outlook Update projects that global economic growth will fall to 2.9% in 2023 but rise to 3.1% in 2024. The 2023 forecast is 0.2% higher than predicted in the October 2022 World Economic Outlook but below the historical average of 3.8%. Rising interest rates and the war in Ukraine continue to weigh on economic activities. China's recent reopening has paved the way for a faster-than-expected recovery. Global inflation is expected to fall to 6.6% in 2023 and 4.3% in 2024, which are still above pre-pandemic levels.

Global economic activity is experiencing a broad-based and sharper-than-expected slowdown, with inflation higher than ever in the past several decades. Compared to the economic outlook of the rest of the world, China and ASEAN countries are in a relatively strong position. The company believes that opportunities and challenges are intertwined in 2023 but opportunities are dominant in Asia especially in China.

5G: A Big Market Opportunity for Leoch

We believe that the new 5G investment cycle will drive significant growth in the size of the telecommunications backup power solution market in China and would definitely bring the company new growth opportunities in the near to medium-term. Being a global supplier of power solutions for telecommunications and data center industries, we believe Leoch will likely be one of the key beneficiaries of the global 5G revolution, experiencing exponential growth in its backup power solution business for the coming 5-10 years.

The Ministry of Industry and Information Technology (the MIIT) recently released a plan for the development of the country's information and communications industry during the 14th Five-Year Plan period. Development priorities include building advanced digital infrastructure facilities, expanding the development space for digitalization, and building new business management systems, an accelerated plan aiming at

constructing a cyber power and digital China in the next five years. By 2025, the overall scale of the information and communication industry will expand further, and the quality of development will be significantly improved with full coverage of townships, basic coverage of administrative villages, and deep coverage of key application scenarios.

According to the MIIT, as of January 2023, China has built and opened more than 2.3 million 5G base stations, and the construction of new data centers has achieved remarkable results. It also pointed out that in 2023, more policies and measures will encourage the deep integration of the digital economy and the real economy. The coordinated development of new information infrastructure construction will speed up the construction of 5G and gigabit optical networks. The construction of “broadband frontier” will start and comprehensively promote the research and development of 6G technology. Other policies and plans include improving the industrial Internet technology system and standard, application system, construction of virtual private network in the 5G industry, enhancing the development policy of the telecom business market, strengthening the entire process and chain management of App, strengthening the protection of personal information and user rights and interests, enhancing network and data security capabilities, and accelerating security industry innovation development.

The communication market in various regions of the world and the demand for lithium batteries is mainly divided into Asia-Pacific (except China, Japan and South Korea), Africa, the Middle East and South America on one hand, as well as China, Japan and South Korea, Europe and North America on the other. The communication network and power supply environment of the former are relatively backward and therefore the performance requirements and backup time of the base station backup power supply are relatively high. Compared with lead-acid batteries, lithium batteries have greater advantages, so the market demand in this area is relatively large; the demand for lithium batteries in base stations of the latter comes from 5G base stations, which are different from the power supply systems of 3G and 4G base stations. Lithium batteries in 5G communication base stations will have a lot of room for growth.

The company’s 2022 shipment data indicated that the demand for reserve power batteries used in all kinds of 5G applications has started to increase in China’s market and the trend will continue to be positive. The Asia-Pacific region was quickly recovering, and further demand is expected since infrastructure development will flourish in the next few years. Other developed countries in Europe and North America are still faced with a lot of uncertainty as well as developing countries in Africa suffering from high inflation and different degrees of financial difficulties.

We expect the company’s lithium iron phosphate batteries used in 5G application will continue to expand in the PRC and the overseas market. The company is always well prepared and will continue to deploy resources in the development of 5G lead-acid and lithium batteries for various applications to capture all possible opportunities.

Industry Specific Information

SLI batteries

According to the China Association of Automobile Manufacturers monthly articles, China's total automobile production and sales volume has been the first in the world for 14 consecutive years. In 2022, despite the impact of many adverse factors such as the severe outbreak of epidemic, structural shortage of chips, high prices of power battery raw materials and local geopolitical conflicts, the overall recovery of China's automobile market has improved under adverse circumstances. The effective pull of a series of stable growth and consumption promotion policies such as halving the purchase tax and the joint efforts of enterprises in the whole industry further helped to achieve positive growth and showed strong development resilience. In 2022, the production and sales of automobiles were 27.021 million and 26.864 million, up 3.4% and 2.1% year on year, respectively. Compared with the previous year, the growth rate of production was flat, and the growth rate of sales dropped by 1.7%. In 2022, new energy vehicles continued to grow explosively, with the production and sales of 7.058 million and 6.887 million vehicles, up 96.9% and 93.4% respectively year on year, and the market share reached 25.6%, which is 12.1% higher than that of the previous year.

Starting from 2023, with the further emergence of the effects of economic stabilization policies and measures, the impact of the superimposed epidemic subsidies and other favorable factors, China's economic prosperity continued to rise. The purchasing managers' index of the manufacturing industry has risen significantly and has been in the expansion range for two consecutive months. The market is expected to continue to improve. Macroeconomic stability is very important for the steady growth of the automobile market. In February, due to the Spring Festival, the base is relatively low, and the automobile production and sales have significantly increased on a month-on-month and year-on-year basis. Among them, the production and sales of passenger cars showed double-digit growth, while the production and sales of commercial vehicles showed double-digit growth year-on-year, and the export of new energy vehicles and automobiles continued to perform well.

In 2023, China will continue to implement the strategy of expanding domestic demand, actively promote the overall improvement of economic operation, improve quality and expand capacity. The China Association of Automobile Manufacturers believes that with the implementation of relevant supporting policies and measures, it will further stimulate market entities and consumption vitality, and is confident that the economy will improve throughout the year; in addition, problems such as chip supply shortages in 2023 are expected to be greatly alleviated. In 2023, the automobile market will continue to show a steady and positive development trend, showing a growth rate of about 3%.

In January to February 2023, the production and sales of new energy vehicles in China was 977,000 and 933,000 respectively, up 18.1% and 20.8% year-on-year, and the market share reached 25.7%. It is expected that 2023 will break the record for both domestic and export markets. New energy vehicle segment, including battery electric vehicles, plug-in hybrid electric vehicles and fuel cell vehicles, will continue to be the bright spot in the future.

Besides traditional fossil fuel vehicles, Leoch is one of the major suppliers of domestic new energy automobile brands such as BYD, Geely Auto, Nio, GWM, BAIO BJEV, Xpeng, ONE, Weltmeister etc. Auxiliary lead-acid battery is required in high-speed electric vehicles for low-voltage power supply. The company will put sufficient resources to secure and expand its market share in China.

The company has a very solid position in the PRC SLI battery market to manufacturers and export OEM market. Company's continuing effort in building its after-market distribution network is the key to its future growth. The company has confidence that SLI battery business growth momentum can be restored in 2023.

Motive power batteries

The global low speed electric car market size is estimated to be worth USD 8 billion in 2022 and is forecast to reach a size of USD 14.7 billion by 2028 with a CAGR of 10.8%. The main types of low-speed electric vehicles are electric golf carts, electric personal utility vehicles, electric low-speed off-road vehicles, and electric low-speed heavy-duty vehicles. In 2022, the company's overseas sales of motive power batteries achieved more than 40% growth and we believe the long-term growing demand will provide exciting opportunity to expand company's overseas market share despite uncertainty in 2023.

In China, low-speed electric vehicles have grown rapidly along with the country's economic and social development. Leading manufacturers have all put forward a growth plan which will drive the continuous development of the power battery industry. In recent years, electric bicycles, electric motorcycles, electric tricycles and other electric vehicles have gradually become an important means of transportation for Chinese people due to their economical and convenient features.

The company's motive power battery business unit always quickly responds and adapts to market changes. We believe that the company's high-end batteries and differentiated management strategy is the driving force to continuous future growth. The company actively deploys lithium motive power battery projects and launched a number of models in the market. In 2023, the company will continue in deepening the franchise store model, optimizing the quality and quantity of agents, improving product turnover efficiency and sales scale of the sales channels to secure a solid foundation for continuous growth.

International Market

Rising interest rates and the Russia-Ukraine war continued to weigh on global economic activity in 2022. Global growth slowed down significantly, and the 2023 economic forecast is mixed. The US and major European economies are widely expected to avoid recession. On the other hand, China and ASEAN will become the major contributors to the global economic growth.

The GDP growth of the US in 2023, is expected to be in the range of 0.2% to slightly higher than 1% while mild contractions in the economic activity are expected in the UK and some major EU economies such as Germany and Italy.

Some of Africa's major economies are expected to suffer from the ongoing impacts of the Russia-Ukraine war, runaway food price inflation and the tailwinds of the Covid-19 pandemic that caused enormous economic disruption. The company's overseas performance could be affected in the US, European and African regions but the cost-of-living crisis with elevated food and energy prices lowered our overseas competitors, competitive power since production cost keep raising which led to unstable production output. On the other hand, more than 85% products of the company are produced in China and secured by stable cost and production. The suppressing demand could be overcome by expansion of market share in 2023.

China's recent reopening has paved the way for a faster-than-expected recovery. Improving economic growth in China is positive for the ASEAN region and consensus was reached that it will remain as one of the fastest-growing regions of the world in 2023. The company expects business growth in the APAC region will be the major contributor to their overseas business growth in 2023.

Recycled Lead

According to the statistics of Zhuo Chuang Information, the total amount of waste batteries recycled by licensed disposal enterprises in 2022 is around 6.659 million tons, an increase of only 1%. However, in 2023, the disposal capacity of waste batteries will continue to expand, and it is expected to exceed 15 million tons per year with the gap between supply and demand to widen. According to the assessment data, the output of waste batteries in 2023 may be 7 to 7.5 million tons, and the supply gap may be as high as 7.5 to 8 million tons.

China's recycling lead industry has developed rapidly, but the industry now faces the problem of overcapacity and low profitability. Also, the equipment and technology levels need to be further improved and brought up to date. Despite these nationwide problems, the company's lead recycling plant managed to run at full capacity and sustain growth. Leoch's dedicated scrap battery recycling department, which will utilize the existing sales network capability to collect old batteries, has made contribution to the constant supply of scrap lead-acid batteries to the recycling plant in 2023. The company will continue to strengthen this closed-loop business model and is highly confident that the output volume in 2023 can be sustained.

The production and sales of new energy vehicles has continued to hit new highs, and the mismatch between supply of and demand for raw materials has become increasingly prominent. Setting up the lithium battery recycling business will be on the investment agenda in 2023 for the company after prudently evaluating the industry's future prospects and potential return.

Lead is the main raw material of lead-acid batteries and accounts for a major part of the production cost for the company's battery production. According to Shanghai Metals Market (SMM), the monthly average lead price per ton fluctuated within the range of RMB14,876 to RMB15,566 during 2022, representing a change within the range of -2.5% to 2.0% as compared with SMM monthly average of RMB15,263 per ton in December 2021.

The monthly average SMM lead price per ton from January 2022 to June 2022 was RMB15,190 which decreased by 0.5% as compared with SMM monthly average in December 2021, reflecting a stable demand for domestic and export battery products in China. The monthly average SMM lead price per ton from July to December 2022 was RMB15,143, representing a modest decrease of 0.8% as compared with SMM monthly average in December 2021, reflecting that the pace of stability continued in the second half of 2022. This was in line with China's stable economic performance with 3% growth achieved in 2022 with GDP reaching RMB121.02 trillion while consumer prices and employment remained stable.

To cope with the potential pricing risk associated with the fluctuation in future lead price, the company has adopted a price-linked pricing mechanism to minimize lead price fluctuation exposure. In addition, the company's centralized procurement of raw materials enables it to trim down costs of raw materials through favorable negotiations on bulk purchase contracts.

5 Year Price Chart



5 Year China Shanghai Lead Spot Price



Income Statement (millions RMB)	FY 2020	FY 2021	FY 2022	FY 2023E	FY 2024E	FY 2025E	FY 2026E	CAGR (2022-2026)
Revenue	9,631.4	11,303.1	12,845.9	16,094.8	19,303.2	21,253.8	23,401.7	16.2%
y/y	15.2%	17.4%	13.6%	25.3%	19.9%	10.1%	10.1%	
Cost of Revenue	-8,443.1	-9,793.4	-11,251.1	-14,002.5	-16,793.8	-18,384.5	-20,125.5	
Gross Profit	1,188.3	1,509.7	1,594.8	2,092.3	2,509.4	2,869.3	3,276.2	
Gross margin (%)	12.3%	13.4%	12.4%	13.0%	13.0%	13.5%	14.0%	
Other Operating Revenue	17.4	35.9	22.3	11.2	1.1	1.1	1.1	
as a % of sales	0.2%	0.3%	0.2%	0.1%	0.0%	0.0%	0.0%	
Selling, General & Admin Expense	-920.3	-1,131.7	-1,105.7	-1,316.7	-1,456.0	-1,570.6	-1,695.4	
as a % of sales	9.6%	10.0%	8.6%	8.2%	7.5%	7.4%	7.2%	
Other Operating expenses	-35.9	-102.6	-14.4	-21.7	-26.0	-28.7	-31.6	
as a % of sales	0.4%	0.9%	0.1%	0.1%	0.1%	0.1%	0.1%	
Operating Income	249.6	311.3	497.0	765.1	1,028.5	1,271.1	1,550.4	32.9%
y/y	22.7%	24.7%	59.7%	53.9%	34.4%	23.6%	22.0%	
Operating margin (%)	2.6%	2.8%	3.9%	4.8%	5.3%	6.0%	6.6%	
Interest Expense	-158.2	-143.9	-156.2	-178.9	-233.1	-233.1	-233.1	
Interest income	11.3	10.8	12.2	15.7	10.2	10.2	12.0	
Equity in (losses)/income of affiliates	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other recurring (expenses)/income	60.2	37.8	207.2	122.3	40.6	40.6	40.6	
Amortization of intangibles	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Goodwill impairment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other non recurring (expenses) income	-1.9	-24.0	-27.5	0.0	-30.0	0.0	0.0	
Pretax Income (reported)	161.0	192.0	532.6	724.2	816.1	1,088.8	1,370.0	26.6%
y/y	1.4%	19.3%	177.4%	36.0%	12.7%	33.4%	25.8%	
Pretax Income (adjusted)	162.8	192.0	560.1	724.2	846.1	1088.8	1370.0	25.1%
y/y	62.4%	17.9%	191.7%	29.3%	16.8%	28.7%	25.8%	
- Income Tax Expense	-23.7	-25.2	-68.2	-144.8	-169.2	-217.8	-274.0	
effective tax rate (%)	14.7%	13.1%	12.8%	20.0%	20.0%	20.0%	20.0%	
- Minority Interests	14.2	30.6	21.7	21.7	21.7	21.7	21.7	
Income Before XO Items	123.1	136.2	442.8	557.7	625.2	849.3	1074.3	24.8%
y/y	-7.2%	10.7%	225.2%	26.0%	12.1%	35.8%	26.5%	
- Extraordinary Loss Net of Tax	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Net Income (reported)	123.1	136.2	442.8	557.7	625.2	849.3	1074.3	24.8%
y/y	-7.2%	10.7%	225.2%	26.0%	12.1%	35.8%	26.5%	
Exceptional (L)G	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Net Income (adjusted)	124.9	136.2	470.3	557.7	655.2	849.3	1,074.3	22.9%
y/y	68.6%	9.0%	245.4%	18.6%	17.5%	29.6%	26.5%	
Basic EPS (reported)	0.09	0.10	0.33	0.41	0.46	0.62	0.79	
Basic EPS (adjusted)	0.09	0.10	0.35	0.41	0.48	0.62	0.79	
Basic Weighted Avg Shares	1,358	1,360	1,358	1,359	1,359	1,359	1,359	
Diluted EPS (reported)	0.09	0.10	0.33	0.41	0.46	0.62	0.79	24.8%
y/y	-7.2%	10.4%	225.4%	26.0%	12.1%	35.8%	26.5%	
Diluted EPS (adjusted)	0.09	0.10	0.35	0.41	0.48	0.62	0.79	22.9%
y/y	68.6%	8.8%	245.7%	18.6%	17.5%	29.6%	26.5%	
Diluted Weighted Avg Shares (mn)	1,358	1,360	1,359	1,359	1,359	1,359	1,359	

Balance Sheet (millions RMB)	FY 2020	FY 2021	FY 2022	FY 2023E	FY 2024E	FY 2025E	FY 2026E
Assets							
+ Cash & Near Cash Items	848.5	951.7	1,230.0	2,034.9	2,039.1	2,407.0	2,938.4
+ Short-Term Investments	0.0	0.0	0.0	0.0	0.0	0.0	0.0
+ Accounts & Notes Receivable	2,419.7	2,725.7	2,725.7	3,748.1	4,495.3	4,949.5	5,449.7
+ Inventories	1,776.9	2,019.3	2,136.5	2,493.6	2,990.7	3,274.0	3,584.0
+ Other Current Assets	549.1	397.6	697.3	711.3	725.5	740.0	754.8
Total Current Assets	5,594.2	6,094.3	6,789.5	8,987.9	10,250.5	11,370.5	12,726.9
+ Long-Term Investments	0.0	0.0	0.0	0.0	0.0	0.0	0.0
+ Gross Fixed Assets	4,205.0	4,485.6	4,825.2	5,147.1	5,533.2	5,958.3	6,426.3
- Accumulated Depreciation	-2,092.1	-2,628.8	-2,988.8	-3,236.0	-3,520.6	-3,821.5	-4,139.5
+ Net Fixed Assets	2,371.7	2,291.8	2,289.7	1,911.2	2,012.6	2,136.8	2,286.8
+ Other Long-Term Assets	389.2	436.8	629.6	654.8	681.0	708.2	736.5
+ Goodwill & other Intangible Assets	717.8	773.2	785.6	824.0	860.8	901.4	946.0
Total Long-Term Assets	3,478.7	3,501.8	3,704.9	3,389.9	3,554.4	3,746.4	3,969.4
Total Assets	9,072.8	9,596.1	10,494.4	12,377.8	13,804.9	15,116.8	16,696.3
Liabilities & Shareholders' Equity							
+ Accounts Payable	2,139.4	2,319.3	2,361.0	3,644.5	4,371.0	4,785.0	5,238.1
+ Short-Term Borrowings	1,760.8	2,042.5	2,641.7	2,641.7	2,641.7	2,641.7	2,641.7
+ Other Short-Term Liabilities	1,097.5	1,190.8	1,205.9	1,266.2	1,329.5	1,396.0	1,465.8
Total Current Liabilities	4,997.8	5,552.5	6,208.6	7,552.3	8,342.1	8,822.6	9,345.6
+ Long-Term Borrowings	542.4	329.7	68.4	68.4	68.4	68.4	68.4
+ Other Long-Term Liabilities	132.7	134.8	181.1	184.8	188.4	192.2	196.1
Total Liabilities	5,672.9	6,017.1	6,458.2	7,805.5	8,599.0	9,083.3	9,610.1
+ Total Preferred Equity	0.0	0.0	0.0	0.0	0.0	0.0	0.0
+ Share Capital & APIC	116.2	116.2	116.3	116.3	116.3	116.3	116.3
+ Retained Earnings & Other Equity	3,123.4	3,271.7	3,706.0	4,263.8	4,919.0	5,768.3	6,842.6
Total Shareholders' Equity	3,239.6	3,387.9	3,822.3	4,380.0	5,035.2	5,884.6	6,958.9
+ Minority Interest	160.3	191.1	214.0	192.3	170.6	149.0	127.3
Total Liabilities & Equity	9,072.8	9,596.1	10,494.4	12,377.8	13,804.9	15,116.8	16,696.2

Cash Flow (millions RMB)	FY 2020	FY 2021	FY 2022	FY 2023E	FY 2024E	FY 2025E	FY 2026E
+ Net Income	148.6	164.0	470.3	557.7	655.2	849.3	1,074.3
+ Depreciation & Amortization	454.8	536.7	360.0	247.2	284.6	300.9	318.0
+ Other Non-Cash Adjustments	182.7	182.2	324.6	-18.0	-18.0	-17.9	-17.8
+ Changes in Non-Cash Capital	-23.0	-164.2	-360.0	-49.7	-468.7	-271.5	-302.1
Cash From Operating Activities	763.0	718.7	794.9	737.2	453.3	860.8	1,072.4
+ Disposal of Fixed Assets	9.5	7.4	0.0	0.0	0.0	0.0	0.0
+ Capital Expenditures	-416.5	-280.6	-339.6	-321.9	-386.1	-425.1	-468.0
+ Increase in Investments	-33.3	-141.2	-192.8	-25.2	-26.2	-27.2	-28.3
+ Decrease in Investments	147.8	9.0	0.0	0.0	0.0	0.0	0.0
+ Other Investing Activities	-198.3	-284.1	-12.4	-38.4	-36.8	-40.5	-44.6
Cash From Investing Activities	-490.8	-689.4	-544.8	-385.5	-449.1	-492.9	-541.0
+ Dividends Paid	-24.8	0.0	-119.7	0.0	0.0	0.0	0.0
+ Change in Short-Term Borrowings	0.0	0.0	599.2	0.0	0.0	0.0	0.0
+ Increase in Long-Term Borrowing	5,230.2	5,353.6	-261.3	0.0	0.0	0.0	0.0
+ Decrease in Long-term Borrowing	-5,152.0	-5,244.2	0.0	0.0	0.0	0.0	0.0
+ Increase in Capital Stocks	0.022	0.1	0.0	0.0	0.0	0.0	0.0
+ Decrease in Capital Stocks	0.0	0.0	0.0	0.0	0.0	0.0	0.0
+ Other Financing Activities	-165.3	-150.7	865.7	0.0	0.0	0.0	0.0
Cash from Financing Activities	-111.9	-41.2	1,083.9	0.0	0.0	0.0	0.0
Net Changes in Cash	160.3	-11.9	1,334.0	351.7	4.2	367.9	531.4
Opening cash	280.9	387.1	349.2	1,683.2	2,034.9	2,039.1	2,407.0
Closing cash	387.1	349.2	1,683.2	2,034.9	2,039.1	2,407.0	2,938.4

Ratio Analysis	FY 2020	FY 2021	FY 2022	FY 2023E	FY 2024E	FY 2025E	FY 2026E
Per Share Data (RMB)							
Basic EPS (adjusted)	0.09	0.10	0.35	0.41	0.48	0.62	0.79
Diluted EPS (adjusted)	0.09	0.10	0.35	0.41	0.48	0.62	0.79
Dividend per share (DPS)	0.000	0.000	0.088	0.000	0.000	0.000	0.000
Book Value per share (BVPS)	1.9	1.9	2.2	2.6	3.1	3.7	4.4
Margins (%)							
Gross Margin	12.3%	13.4%	12.4%	13.0%	13.0%	13.5%	14.0%
Operating Margin	2.6%	2.8%	3.9%	4.8%	5.3%	6.0%	6.6%
EBITDA Margin	7.3%	7.5%	6.7%	6.3%	6.8%	7.4%	8.0%
Pre-Tax Margin (adjusted)	1.7%	1.7%	4.4%	4.5%	4.4%	5.1%	5.9%
Net Income Margin (adjusted)	1.3%	1.2%	3.7%	3.5%	3.4%	4.0%	4.6%
Growth (%)							
Sales growth	15.2%	17.4%	13.6%	25.3%	19.9%	10.1%	10.1%
EBIT growth	22.7%	24.7%	59.7%	53.9%	34.4%	23.6%	22.0%
Net Income (adjusted) growth	68.6%	9.0%	245.4%	18.6%	17.5%	29.6%	26.5%
EPS (adjusted) growth	68.6%	8.8%	245.4%	18.6%	17.5%	29.6%	26.5%
Return Ratios							
Dupont ROE (%)	3.9%	4.0%	12.3%	12.7%	13.0%	14.4%	15.4%
Margin (%)	1.3%	1.2%	3.7%	3.5%	3.4%	4.0%	4.6%
Turnover (x)	1.1	1.2	1.2	1.3	1.4	1.4	1.4
Leverage (x)	2.8	2.8	2.7	2.8	2.7	2.6	2.4
ROA	1.4%	1.4%	4.5%	4.5%	4.7%	5.6%	6.4%
Return on Capital Employed	6.1%	7.7%	11.6%	15.9%	18.8%	20.2%	21.1%
Return on Invested Capital	2.3%	2.4%	7.2%	7.9%	8.5%	9.9%	11.1%
Net cash / equity	-44.9%	-41.9%	-38.7%	-15.4%	-13.3%	-5.2%	3.3%
FCF Calculation							
Op. cash	763.0	718.7	794.9	737.2	453.3	860.8	1,072.4
capex	-416.5	-280.6	-339.6	-321.9	-386.1	-425.1	-468.0
FCF (RMB million)	346.6	438.1	455.3	415.3	67.2	435.7	604.4
FCF margin (%)	3.6%	3.9%	3.5%	2.6%	0.3%	2.0%	2.6%
FCF per share	0.26	0.32	0.33	0.31	0.05	0.32	0.44
Price/FCF per share	5.8	4.6	4.4	4.8	29.9	4.6	3.3
Net Cash calculation							
Cash + short term investments	848.5	951.7	1,230.0	2,034.9	2,039.1	2,407.0	2,938.4
Less: long term debt	-2,303.3	-2,372.2	-2,710.1	-2,710.1	-2,710.1	-2,710.1	-2,710.1
Net Cash (Debt)	-1,454.8	-1,420.5	-1,480.1	-675.2	-671.0	-303.1	228.3
Net cash per share	-1.1	-1.0	-1.1	-0.5	-0.5	-0.2	0.2

Valuation ratio's	FY 2020	FY 2021	FY 2022	FY 2023E	FY 2024E	FY 2025E	FY 2026E
P/B	0.79	0.77	0.66	0.56	0.48	0.40	0.33
P/E	16.04	14.74	4.27	3.60	3.06	2.36	1.87
P/S	0.21	0.18	0.16	0.12	0.10	0.09	0.09
EV/sales	0.23	0.20	0.17	0.14	0.12	0.11	0.10
EV/EBITDA	5.26	4.37	4.32	3.66	2.82	2.35	1.98
EV/EBIT	9.01	7.22	4.52	2.94	2.19	1.77	1.45
EV/FCF	6.49	5.13	4.94	5.41	33.46	5.16	3.72
Dividend Yield (%)	0.0%	0.0%	6.0%	0.0%	0.0%	0.0%	0.0%
Div payout on FCF	0.0%	0.0%	26.3%	0.0%	0.0%	0.0%	0.0%

Enterprise Value Calculation	FY 2020	FY 2021	FY2022
Market Cap. [in RMB]	643	671	2,008
+ Minority Interest	197	156	214
+Total Debt (ST & LT Debt)	2,303	2,372	2,710
- Cash & Equivalents	849	952	1,230
Enterprise Value	2,295	2,248	3,702

DCF model	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E	2028E
(in RMB million)																		
EBIT	301	103	47	137	260	388	410	269	203	250	311	497	765	1,028	1,271	1,207	1,332	1,443
% growth	-1%	-66%	-55%	194%	90%	49%	6%	-34%	-24%	23%	25%	60%	54%	34%	24%	-5%	10%	8%
Taxes @	14%	6%	-7%	27%	21%	17%	12%	11%	20%	15%	13%	13%	20%	20%	20%	15%	15%	15%
EBIAT	260	96	50	100	206	321	363	240	163	213	270	433	612	823	1,017	1,026	1,132	1,226
% growth	-1%	-63%	-48%	101%	105%	56%	13%	-34%	-32%	30%	27%	60%	41%	34%	24%	1%	10%	8%
+ D&A	62	103	167	204	218	256	308	289	262	455	537	360	247	285	301	367	397	421
- Capital expenditures	-817	-646	-369	-123	-311	-188	-314	-296	-398	-416	-281	-340	-322	-386	-425	-528	-583	-631
- Change in net WC	-313	484	142	-200	-361	-366	-844	161	422	-23	-164	-360	-50	-469	-272	-369	-334	-295
Free Cash Flow to Firm	-807	37	-11	-19	-248	22	-488	394	449	228	362	94	488	253	621	495	612	721
FCY y/y growth		-105%	-129%	70%	1241%	-109%	-2325%	-181%	14%	-49%	59%	-74%	420%	-48%	146%	-20%	24%	18%

Value per Share

Terminal Growth	Cost of capital				
	7.7%	8.7%	9.7%	10.7%	11.7%
2.5%	6.40	4.98	3.80	3.21	2.63
2.8%	6.76	5.21	3.96	3.32	2.71
3.0%	7.02	5.37	4.07	3.40	2.77
3.3%	7.46	5.65	4.25	3.52	2.86
3.5%	7.79	5.85	4.38	3.61	2.92

WACC	9.7%
PV of Free Cash Flow	2,301
PV of Terminal Value	4,429
Add: Net Cash	-1,480
Less: Minority Interest	-214
Total Equity Value	5,036
Shares outstanding	1,362
DCF value	4.07

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Evaluate Research Ltd.

30/F Singapore Land Tower
50 Raffles Place
SINGAPORE

Sai Capital Bldg – Suite 402
Opp. JW Marriott Hotel
SB RD, Pune 411 016
INDIA

Analysts:

Ketan Chaphalkar
ketan@evaluateresearch.com

Sandy Mehta, CFA
sandy@evaluateresearch.com

Client Servicing:

Pooja Baidya
pooja@evaluateresearch.com

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