

Safety First ♦ Quality ♦ Speed ♦ Teamwork ♦ Excellence

# Yeong Guan Group (1589 TT)

## 2020 Q3 Earnings

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# Outline



**1. Yeong Guan Overview**



**2. 2020 Q3 Financial Highlights**



**3. Market Trends**



**4. Development Strategy**



**5. Financial Figures Appendix**

# Yeong Guan Overview





# **BUILDING FOUNDATIONS FOR RENEWABLE ENERGY**

*Safely and Responsibly*

We are a 1st source supplier of ductile iron castings to Tier 1 global equipment manufacturers in the renewable energy, injection molding machine and industrial machinery industries.



# Yeong Guan Overview

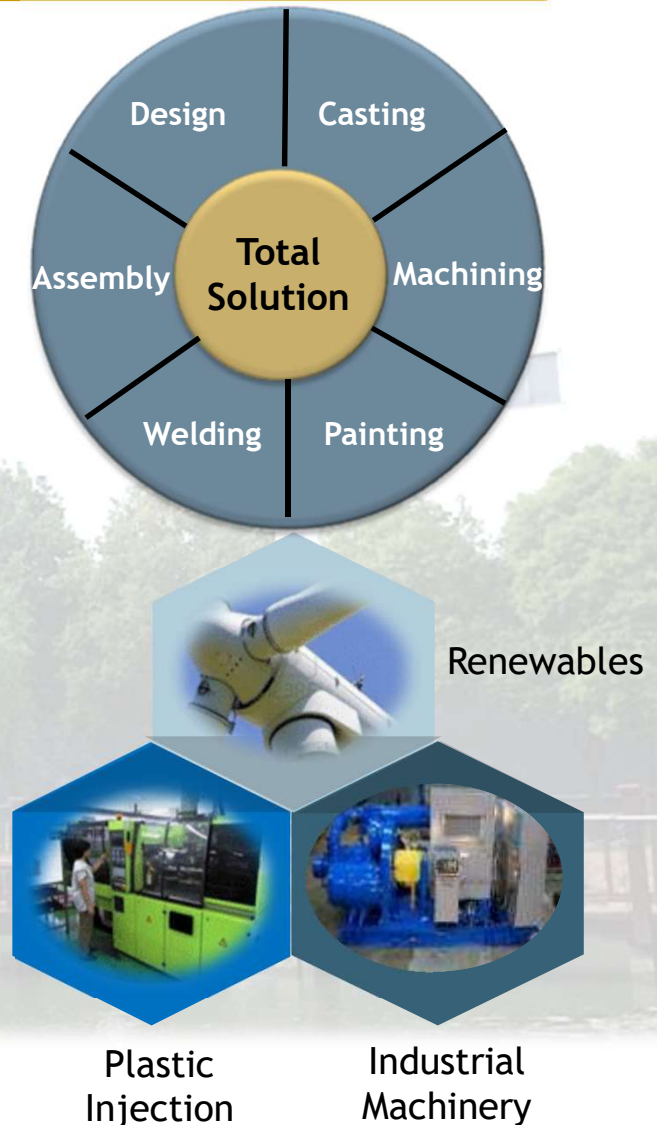
## ✦ Nearly half a century in the foundry industry

- Founded in Taiwan in 1971, investing in China since 1992. Now with 6 factories.
- Around 2,500 employees
- 2019 Revenue reached NT\$ 7.9 billion, with 164,000 tons of castings shipped
- Annual capacity of 200,000 tons

## ✦ Lead the Industry in Environment, Health and Safety (EHS) Best Practices

- Several of our plants have earned recognition from local regulatory authorities.
- EHS qualification is required to gain long-term order flows from Tier 1 MNCs.
- The installation of high standard, environmental friendly equipment enhances our cost-competitiveness

## ✦ Optimizing Lean Production: Improve efficiency



# 2020 Q3 Updates



## COVID-19

Resurgence of COVID-19 in EU and the US. YG's customers continues to operate business normally. Shipments to EU/US remains normal. YG's supply chain is normal



## Employee Wellbeing

Daily monitoring the health of our ~2,500 employees. Strict protocols remains in place to keep out COVID



## Capital Raising

3<sup>rd</sup> Convertible Bond  
(NT\$ 1.55 Billion raised)  
Equity Financing  
(NT\$ 400 Million raised)

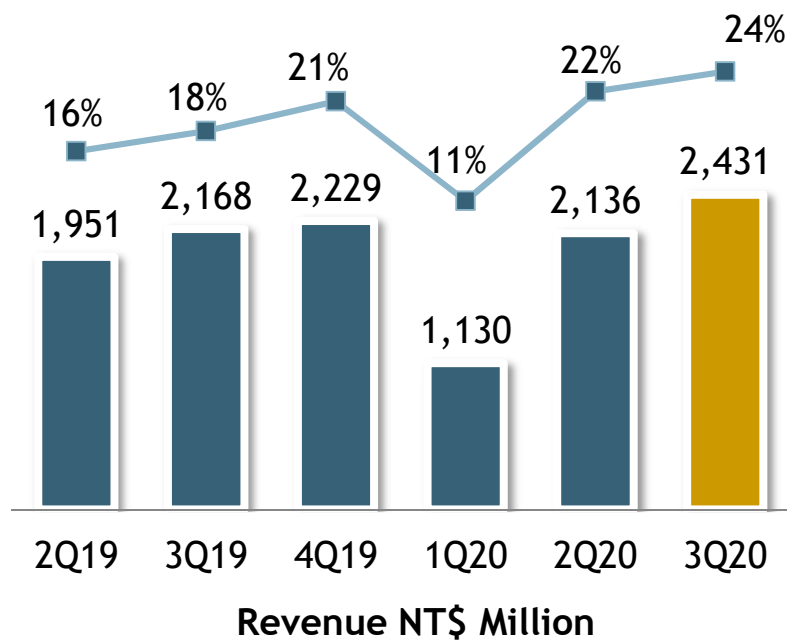
# 2020 Q3 Financial Highlights



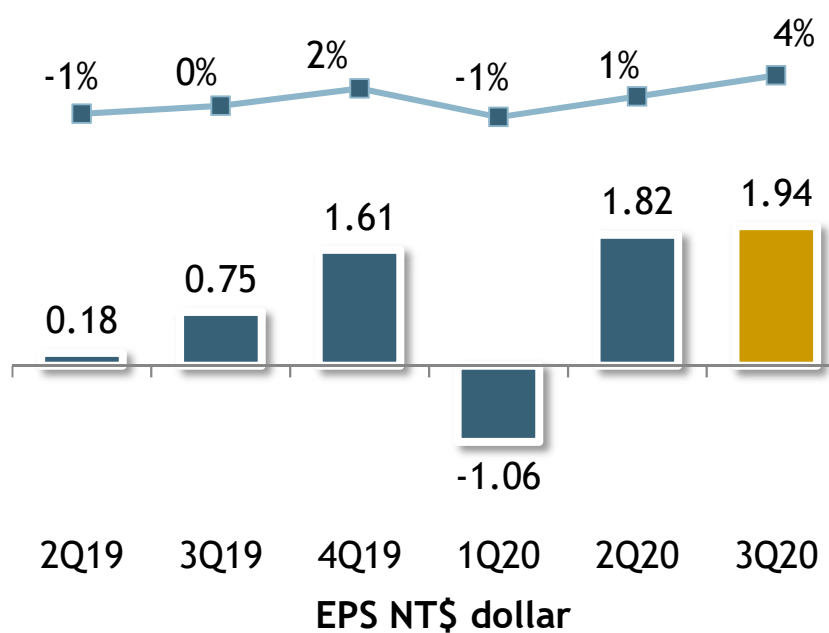
# Increased Wind demand drives Revenue & Margin

- Due to strong demand from wind market, 2020 Q3's revenue and shipment volume reaches new heights since 2012.

## Margin

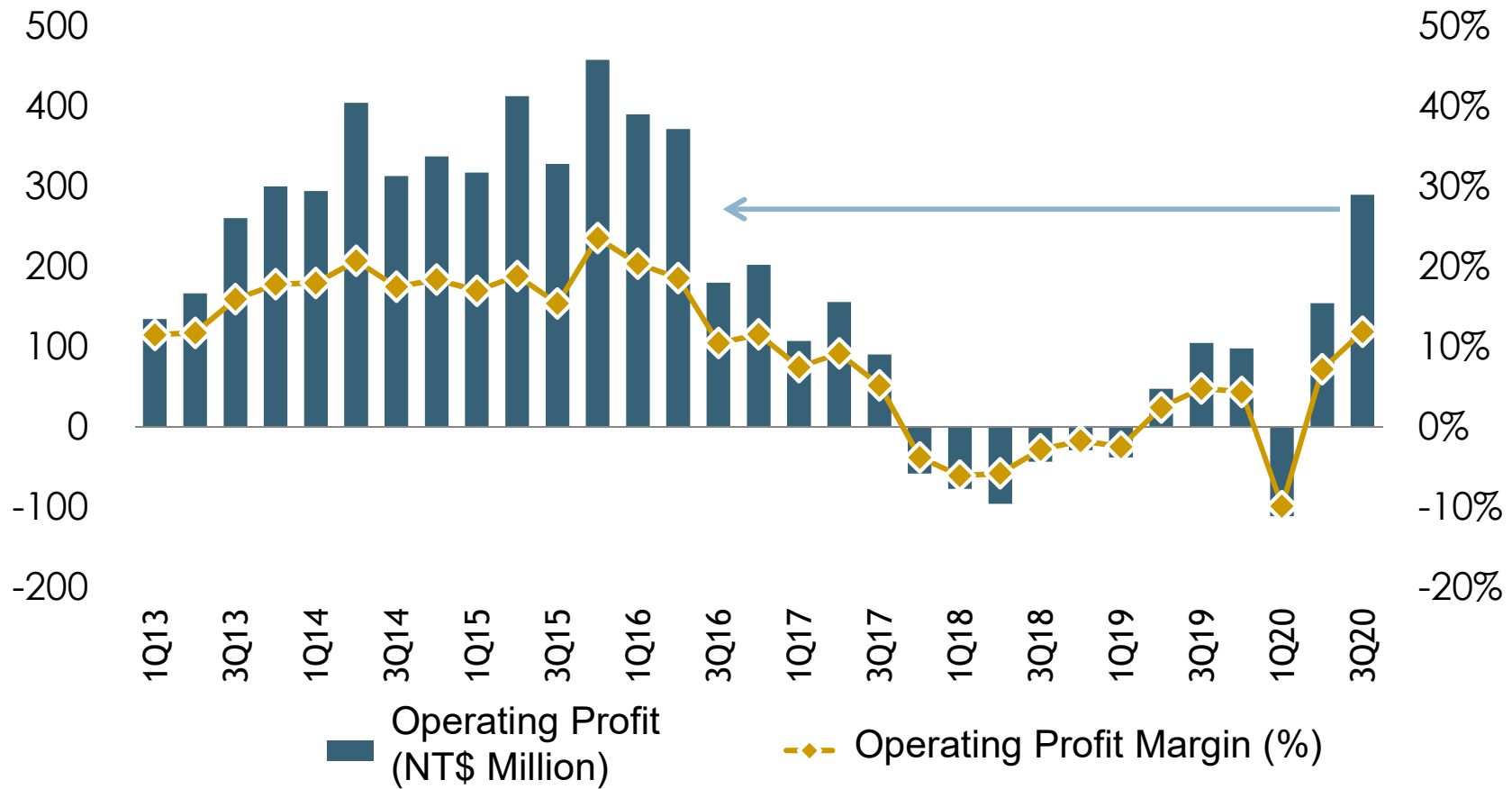


## Return on Equity



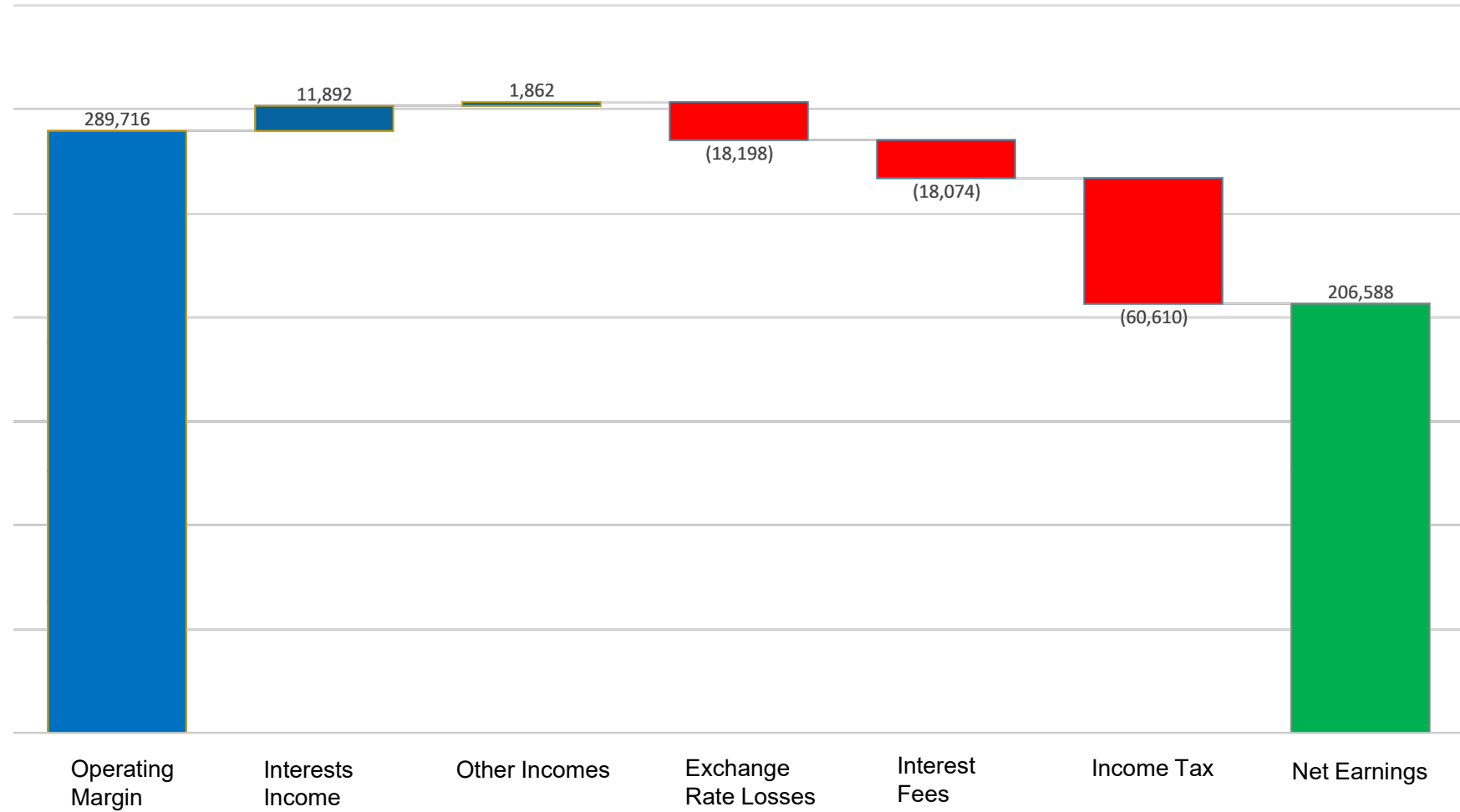
# Operating Profit continues to Improve

## Operating Profit & Operating Profit Margin



# 3<sup>rd</sup> Quarter Net Earnings Analysis

Unit NT\$ Thousand



# Renewable Product Demand Reaches New High

- ✦ Q3 Revenue composition: Renewables 72.8%, Plastic Injection 11.7%, Industrial Machinery 15.5%
- ✦ Due to COVID-19, non-renewables product demand remains low. Renewables shipment continued to grow.

## Revenue by Product Application



# 2020 Q3 Income Statement

Unit: Thousand NTD	3Q2020	2Q2020	QoQ	3Q2019	YoY
Revenue	2,430,601	2,135,664	14%	2,168,195	12%
Gross Profit	582,178	465,019	25%	390,298	49%
Gross Margin	24%	22%	↑2PP	18	↑16PP
Operating Expense	292,462	310,608	-6%	285,651	2%
Operating Income	289,716	154,411	88%	104,647	177%
Operating Profit Ratio	12%	7%	↑5PP	5%	↑7PP
Non Operating Items	(22,518)	68,353	-133%	(3,166)	-611%
Profit before Tax	267,198	222,764	20%	101,481	163%
Profit after Tax	206,588	193,094	7%	80,015	158%
EPS (Basic \$NTD)	1.94	1.82		0.75	

# 2020 Q3 Balance Sheet

Unit: Thousand NTD	3Q2020	2Q2020	QoQ	3Q2019	YoY
<b>Total Assets</b>	15,136,360	13,636,832	11%	13,828,344	9%
Cash	2,457,711	1,581,766	55%	1,582,427	55%
NR & AR	3,549,690	2,707,002	31%	2,980,309	19%
Inventory	1,267,130	1,354,009	-6%	1,430,111	-11%
<b>Total Non-Current Assets</b>	6,496,625	6,516,012	0%	6,903,761	-6%
<b>Total Liabilities</b>	7,130,921	6,118,893	17%	5,962,327	20%
Bank Loans	3,516,690	4,160,440	-15%	4,104,711	-14%
NP & AP	1,291,932	1,069,589	21%	1,104,145	17%
<b>Total Equity</b>	8,005,439	7,517,939	6%	7,866,017	2%
Common Stock	1,056,175	1,056,175		1,056,175	

# Market Trends



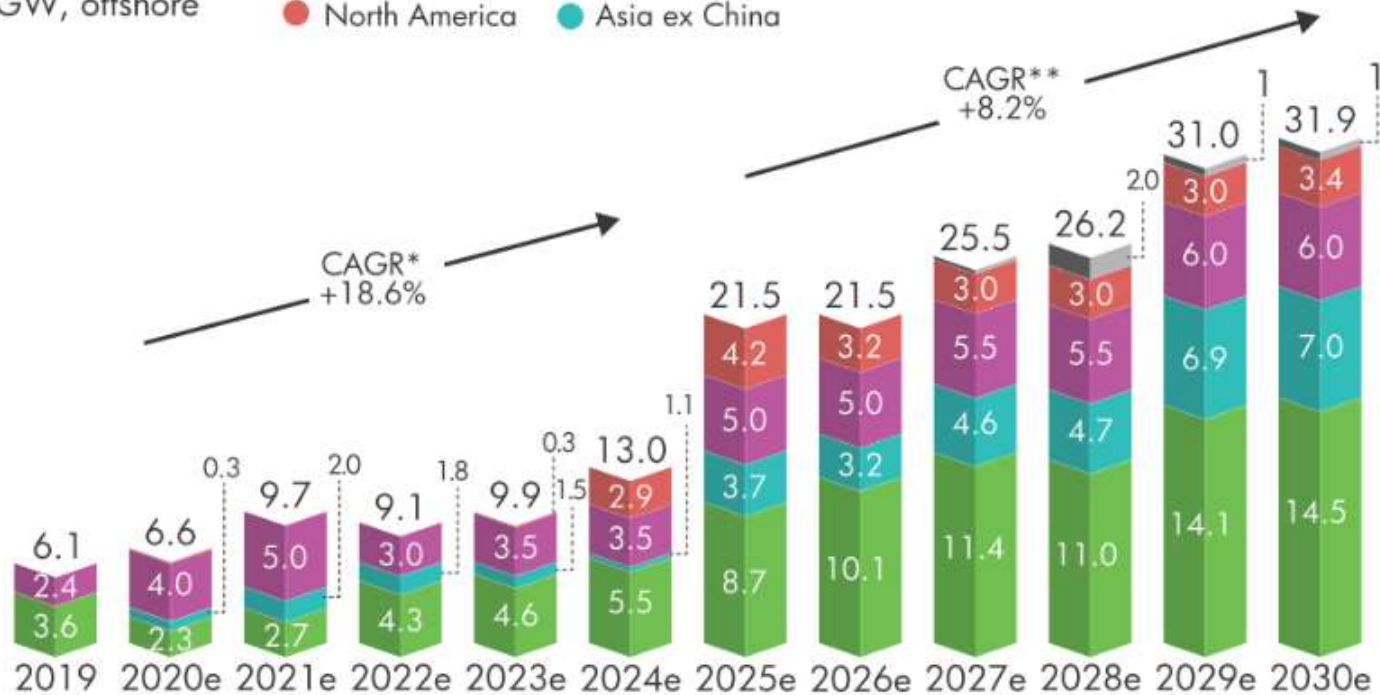
# Offshore Wind Market growth forecast to 2030

✧ 206 GW of new Offshore Wind capacity to be added from 2020 to 2030

Global offshore wind growth to 2030

New installations GW, offshore

- Other
- China
- Europe
- North America
- Asia ex China



\* CAGR = Compound Annual Growth Rate  
 Source: GWEC Market Intelligence, June 2020

# UK plans for more Offshore Wind investments

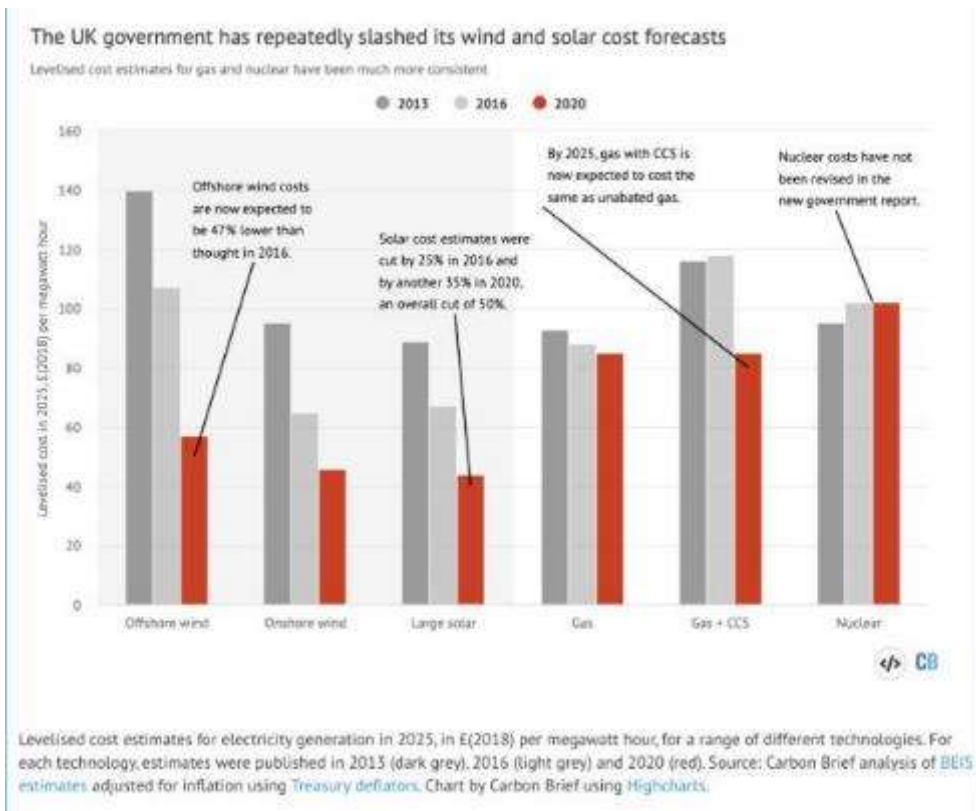
- ✦ The Prime Minister of the UK announced an increase of 2030 offshore wind energy installation target from 30GW to 40GW
- ✦ Onshore/offshore wind power is the most cost competitive power generation method in the UK

## Boris Johnson: Wind farms could power every home by 2030

October 6



Offshore wind farms will generate enough electricity to power every home in the UK within a decade, Boris Johnson has pledged.



# China announces Carbon Neutral targets in UN address

- ✦ China aims to become carbon neutral by 2060
- ✦ BNF forecasts China's cumulative wind installations will grow from 241.5 GW to 413.1 GW between 2021-2025
- ✦ Average 34 GW of new wind installation is possible (2019's installation was around 25 GW)

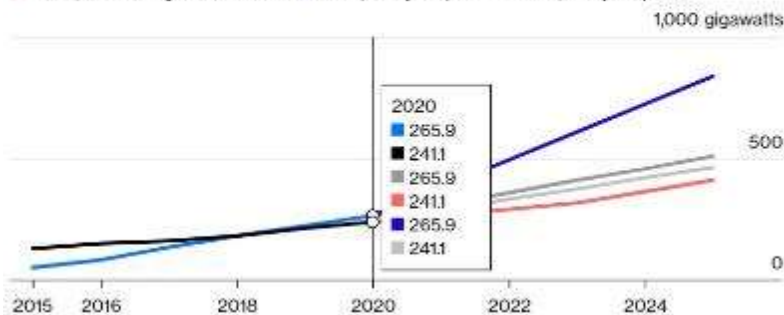


Chinese president Xi Jinping addresses a socially distanced UN General Assembly by video (Pic: UN Photo)

## Sunrise

Installations of wind and solar generation in China may have to sharply accelerate under its 14th five-year plan

/ Solar, historic / Wind, historic / Solar, BloombergNEF forecast  
/ Wind, BloombergNEF forecast / Solar, five-year plan / Wind, five-year plan

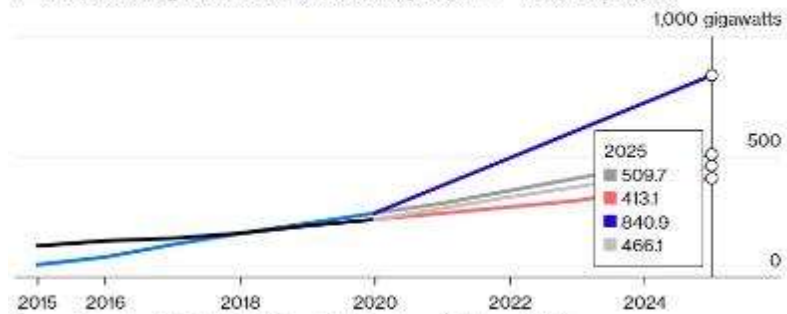


Source: BloombergNEF, Industrial Securities, Bloomberg Opinion calculations  
 Note: "Five-year plan" denotes the upper end of Industrial Securities' estimates of required capacity build-out.

## Sunrise

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/ Solar, historic / Wind, historic / Solar, BloombergNEF forecast  
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Source: BloombergNEF, Industrial Securities, Bloomberg Opinion calculations  
 Note: "Five-year plan" denotes the upper end of Industrial Securities' estimates of required capacity build-out.

# RE 100 members prefer to invest in Wind Energy

- As of the end of 2019, the RE 100 organization has more than 200 members and we expect more international corporations to join in the future.
- 66% of the green energy purchased by RE 100 members is wind

## RE 100

GEODGRAPHICAL BREAKDOWN OF RE100 MEMBERSHIP OVER TIME

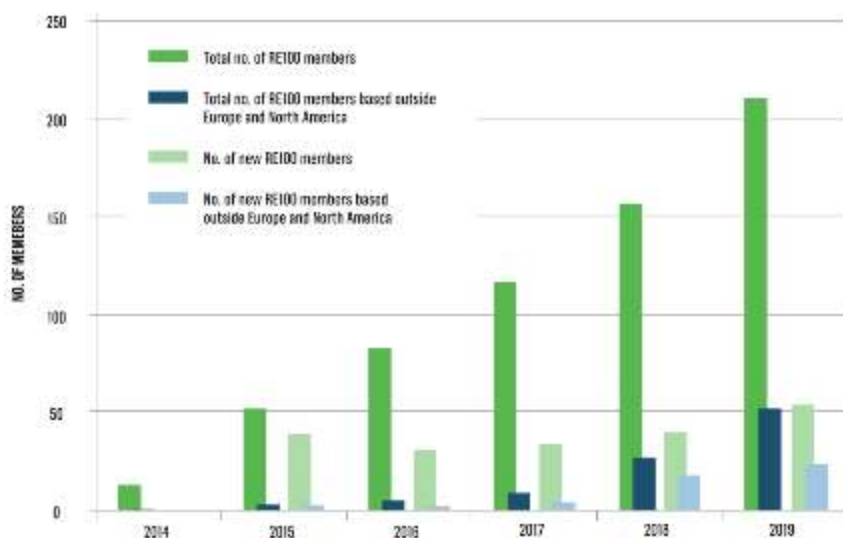


TABLE F: Procured renewable electricity per technology type

Technology	2018 (MWh)	2018 (%)
Wind	20,878,972	59%
Large Hydro (>25 MW)	3,405,643	10%
Solar (PV et CSP)	847,312	2%
Small Hydro (<25 MW)	590,675	2%
Biomass	506,795	1%
Hydro	186,434	1%
Geothermal	107,638	<1%
Other	8,775,560	25%
<b>Total</b>	<b>35,299,029</b>	<b>100%</b>

66 members gave detailed information on the renewable technology used in their procured electricity. These figures do not include technology types used for self-generation of renewable electricity.

Wind remains the most used technology (62% of the energy purchased), followed by large hydro (11%).

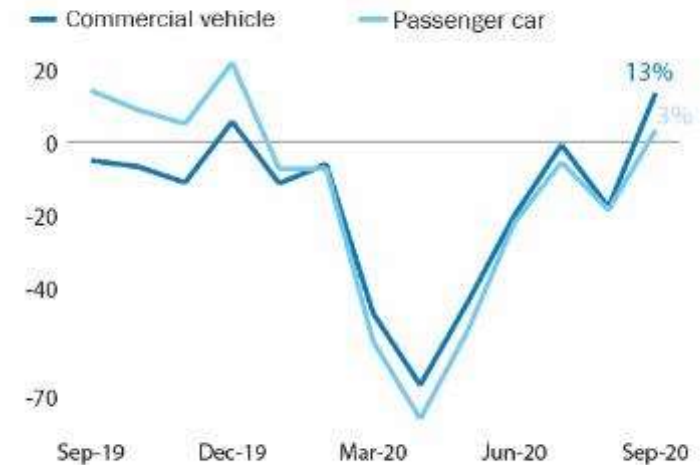


# Growth in Auto Sales expect to spur Plastic Injection machines demand

- ✦ The number of new car registrations in the EU began to grow in September compared to last year
- ✦ Auto Sales in mainland China increased in August compared with the same period last year

## Europe's auto industry recovery continues

New vehicle registrations in the EU, % change year on year:

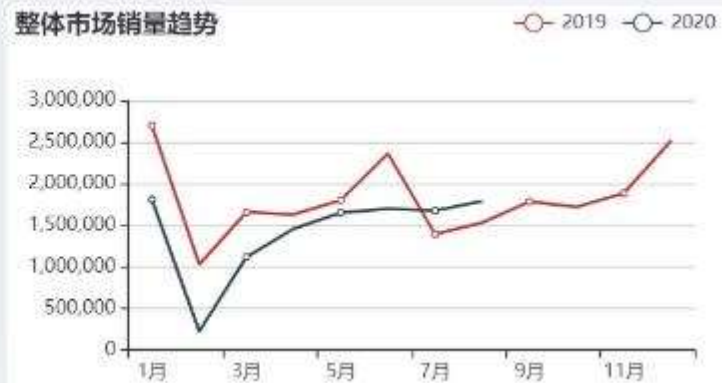


Source: European Automobile Manufacturers Association (ACEA)

## China Auto Market Stats



## 整体市场销量趋势



Source: daas-auto

# World Economies continue to Recover

- ✦ IMF data shows that by the end of August, the industrial production index and retail activities of most countries are back close to the level before COVID-19
- ✦ Bloomberg/World Bank data shows by the end of September, manufacturing PMI/copper prices surpassed the level before COVID-19

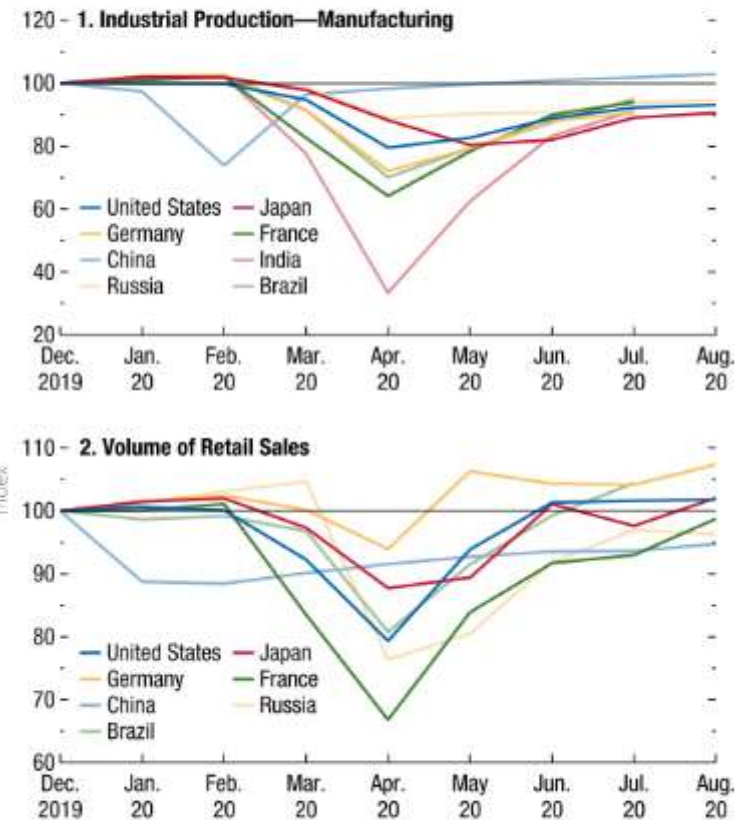


Source: Bloomberg; World Bank



**Figure 1.1. Industrial Production and Retail Sales**  
(Index, December 2019 = 100; seasonally adjusted)

Retail sales have generally recovered stronger than industrial production.



Sources: Haver Analytics; and IMF staff calculations.

# Development Strategy



# Taichung Plant to Start Production in 2022

- ✦ New Offshore Capacity
- ✦ Timeline: Construction will start in 2020, targeting trial production by 2Q22.
- ✦ Capacity: 80,000-100,000 tons/year.
- ✦ 45K by 2023, 60K by 2024, 80K by 2025
- ✦ Advantages:
  - Customers nearby (Siemens/MVOW)
  - Localization requirements
  - Proximity to harbor
  - Government incentives
- ✦ Capex
  - Phase 1: NT\$ 5.22bn to reach 45k



Signed Conditional Contracts with Siemens/MVOW for the supply of castings for Taiwan's offshore wind market.  
We expect 30,000 tons/year demand from Siemens Taiwan, and 50,000 tons demand from international markets.

# The World is Coming to YGG

**Our Taichung Plant is happening at the right time and in the right location**

## **Located right at the port**

Ease of transportation for both finished product and production inputs leads to lower costs and enhanced competitiveness.

## **Proximity to customers**

Siemens' assembly plant is right next door and MVOW's facility is also nearby.

## **Targeting APAC markets**

A wind energy supply chain cluster is forming in Taiwan - ideally located to supply APAC Offshore demand.

## **Modern plant design**

Capable of producing super large castings, such as 14MW offshore products.

## **Advantages post COVID-19**

Tariff advantage relative to China-based producers. European peers have been weakened financially.

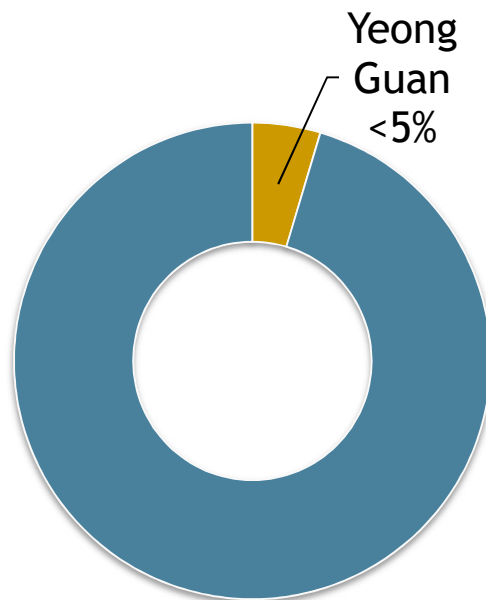
## **Lower wind energy costs**

Wind Energy has become one of the cheapest energy sources

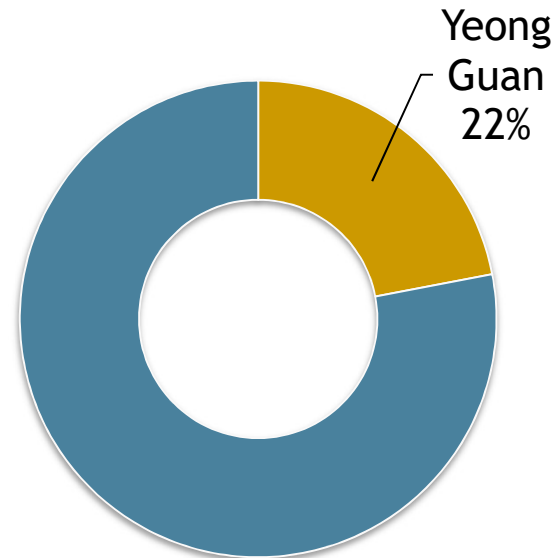
# Sizable Global Offshore Market for Yeong Guan

- ✦ Yeong Guan expects its share of the global offshore wind turbine market to increase from less than 5% now to 22% once the Taichung plant reaches its 80,000-tons total annual capacity.

2019 Offshore Market Share (%)



2030e Offshore Market Share (%)



Note: Assuming 1GW of Offshore Wind demand equals to 12,000 tonnes of castings.

# Thailand Construction Starts in 2021

- ✦ Construction starts in 2021. Production to begin in 2023.
- ✦ 45,000 tons/yr capacity. Automated production, producing full range of products
- ✦ Advantages:
  - 968,000 m<sup>2</sup> site with industrial development potential.
  - 8 years tax-free and 5 years halved tax incentives.
  - EIA approved, can be developed in stages
- ✦ Capex: THB 1 bn (or around NT\$ 1 bn) for Phase 1



COVID-19 pandemic has tremendous impact on Thai economy this year. Thai government announced new incentives for foreign investments in April 2020. Yeong Guan has applied for new incentives in July.

# Outlook for 2020 and Beyond

## ✦ Near Term (1-2 years)

- Renewables to drive shipments growth
- 2020 shipment target: 165,000-175,000 tons
- For 2021, we expect increase from Wind and demand return from other industries, translating to a 5-10% growth.

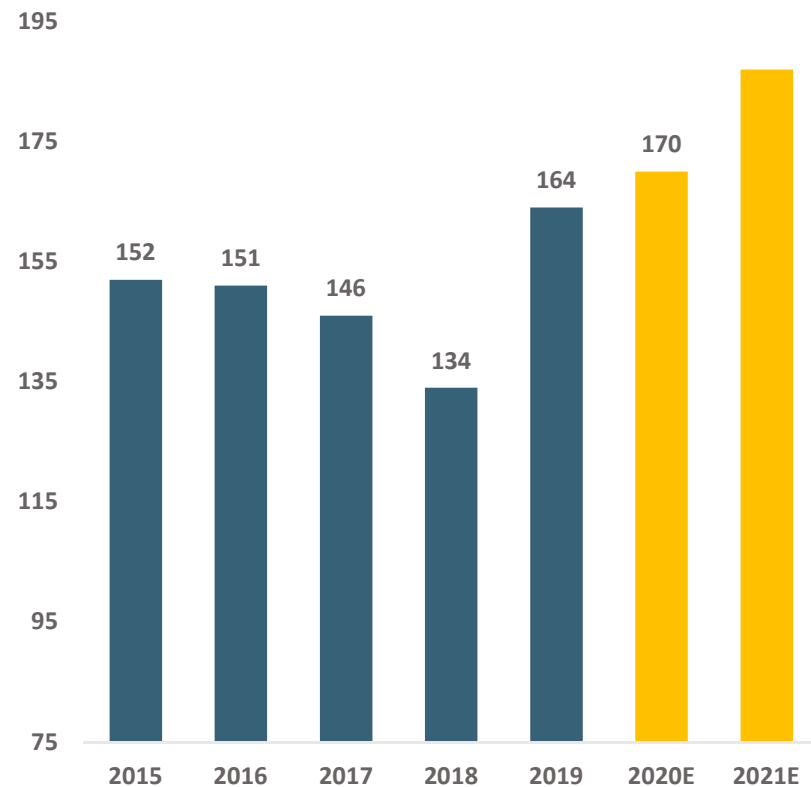
## ✦ Mid Term (3-5 years)

- Taichung plant: Construction starts in 2020, production by 2022.
- Thailand plant: Construction starts in 2021. Production begins in 2023.
- Capacity reaches 250,000 tons/yr.

## ✦ Long Term (5-10 years)

- Sustainable operations & succession planning
- Building upon ESG framework
- Corporate social responsibility
- Capacity reaches 300,000 tons/yr

Estimated Shipments  
(in 1,000 tons)



# Financial Figures Appendix

# Income Statement

NT\$ Million	2016	2017	2018	2019	2020 Q1-Q3	2019 Q1-Q3	YoY(%)				
							2016	2017	2018	2019	2019 V 2020 Q1-Q3
Sales Revenue	7,374	6,404	6,196	7,900	5,696	5,671	-9.2	-13.1	-3.2	27.5	0.4
Gross Profit	2,419	1,432	831	1,371	1,174	913	-9.3	-40.8	-42	65	28.6
Operating Profit	1,144	295	-245	212	333	114	-24.5	-74.2	-183.1	186.5	192.1
Income before Tax	1,325	342	-232	221	362	35	-25.9	-74.2	-167.8	195.3	934.3
Net Income	997	258	-274	164	287	-7	-26.1	-74.1	-206.2	159.9	4200
EPS (NT\$)	8.5	2.28	-2.48	1.54	2.7	-0.08	-30.6	-73.2	-208.8	162.1	3475

## Key financial ratio (%)

Gross Margin	33	22	13	18	21	16
Operating Margin	16	4	-4	3	6	2
Net Margin	13	4	-4	2	5	0
OPEX ratio	17	18	17	15	15	14



# Balance Sheet

NT\$ Million	2016	2017	2018	2019	2020 Q1-Q3	2019 Q1-Q3	YoY(%)				2019 V 2020 Q1-Q3
							2016	2017	2018	2019	
<b>TOTAL ASSETS</b>	<b>15,052</b>	<b>14,483</b>	<b>14,531</b>	<b>13,521</b>	<b>15,136</b>	<b>13,828</b>	<b>-3.5</b>	<b>-3.8</b>	<b>0.3</b>	<b>-7</b>	<b>9.5</b>
Cash	4,241	3,316	3,153	1,451	2,458	1,582	-21.6	-21.8	-4.9	-54	55.4
NR & AR	2,186	2,026	2,103	2,947	3,550	2,980	-12	-7.3	3.8	40.1	19.1
Inventory	1,261	1,256	1,368	1,226	1,267	1,430	-3.3	-0.4	8.9	-10.4	-11.4
Fixed Asset	5,701	6,279	5,920	5,735	5,534	5,859	8.5	10.1	-5.7	-3.1	-5.5
<b>TOTAL LIABILITIES</b>	<b>4,974</b>	<b>4,768</b>	<b>6,250</b>	<b>5,699</b>	<b>7,131</b>	<b>5,962</b>	<b>0.8</b>	<b>-4.1</b>	<b>31.1</b>	<b>-8.8</b>	<b>19.6</b>
Bank Loans	619	612	4,584	3,858	3,517	4,105	23.8	-1.1	649	-15.8	-14.3
NP & AP	1,098	1,136	1,050	990	1,292	1,104	-3.2	3.5	-7.6	-5.7	17
<b>TOTAL EQUITY</b>	<b>10,078</b>	<b>9,715</b>	<b>8,281</b>	<b>7,822</b>	<b>8,005</b>	<b>7,866</b>	<b>-5.4</b>	<b>-3.6</b>	<b>-14.8</b>	<b>-5.5</b>	<b>1.8</b>
Common Stock	1,188	1,188	1,116	1,056	1,056	1,056	0.7	0	-6.1	-5.4	0
Book value per share	82.3	79.3	72.9	72.5	74.4	72.9					
A/R turnover days	116	121	123	117	157	123					
Inventory turnover days	98	99	97	78	80	87					
A/P turnover days	82	82	74	57	69	62					
ROE (%)*	9.8	2.8	-3.2	2.1	3.7	-0.1					

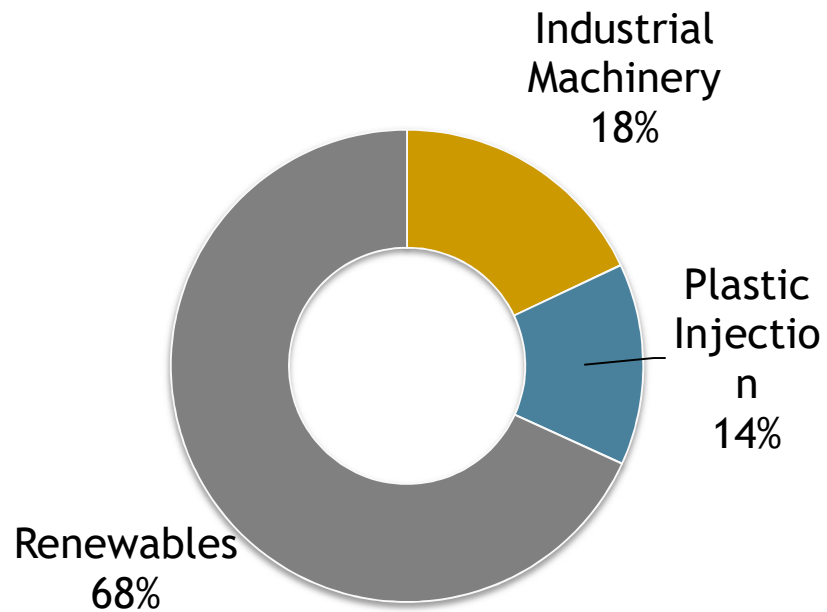
\* ROE: Parent company Net income / average common equity

# Quarterly Income Statement

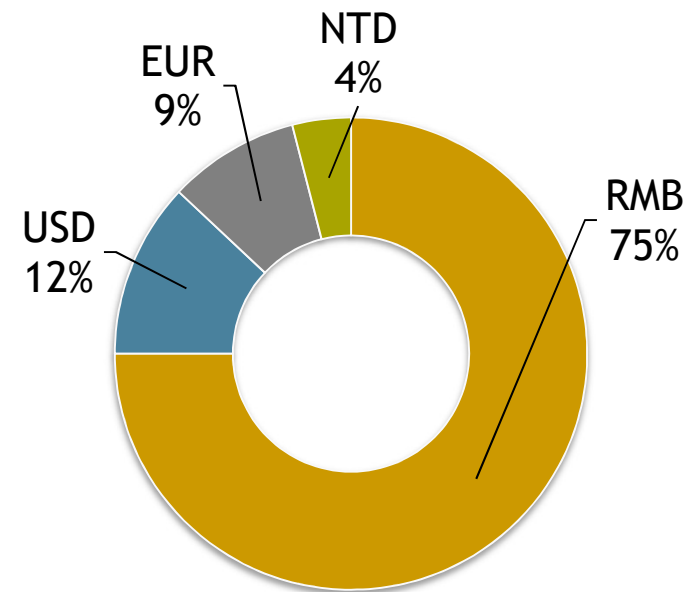
NT\$ Million	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20
Sales Revenue	1,662	1,558	1,703	1,552	1,951	2,168	2,229	1,130	2,136	2,431
Gross Profit	201	216	266	218	304	390	459	127	465	582
Operating Profit	(96)	(43)	(29)	(38)	47	105	99	(111)	154	290
Income before Tax	(105)	(26)	(51)	(102)	35	101	186	(128)	223	267
Net Income	(128)	(46)	(60)	(106)	19	80	172	(113)	193	207
EPS (NT\$)	(1.15)	(0.41)	(0.55)	(1.00)	0.18	0.75	1.62	(1.06)	1.82	1.94
Revenue by Application (%)	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20
Renewable Energy	22.2	23.5	38.8	43.3	47.9	59.4	66.6	60.7	67.0	72.8
Injection Molding Machine	38.7	36.3	29.2	26.9	24.3	16.7	14.6	17.7	14.1	11.7
Industrial Machinery	39.1	40.2	32.0	29.8	27.8	23.9	18.8	21.6	18.9	15.5

# 2020 Q1-Q3 Revenue Analysis

## Revenue By Application (%)



## Revenue by Currency (%)



Thank you for your consideration!



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