

China's Auto Sector Report

- Following the investment logic, the strong to be constantly powerful



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Report type: Update

Summary

· It is absolutely a definite event that the growth of China auto market will slow down, and the yearly auto sales in 2012 is predicted to increase by nearly 7%. However, we believe that, the burst of structural demand (eg, SUV demand), the consumption upgrading trend and the popularization period of 3rd, 4th and 5th tier cities will bring about opportunities to some specific segment market of Chinese auto industry. Concerned strong enterprises still has space for fast growth.

· The fast growth period of SUV will last for 2 to 3 years more, then to enter the mature period with stable growth. From the price, 200-250 thousand's car models are the main force of growth. Meanwhile, taking into consideration a proportion of needs for first car buying in non-first-tier city, the mid-and-low price market of 80-100 thousand is estimated to be quite prosperous.

· The bottoming-out of the heavy truck industry is hopeful in H2 2012, but the whole dramatic reversal won't be very possible, complete recovery still necessary to be waited.

· The winners and losers point among auto enterprises gradually become obvious, and the investment chance in auto share will display structural features. Our investment logic mainly recommend: 1. Companies with strong affirmation of the performance growth; 2. Those companies whose performance possibly bottom out and rebound; 3. Companies benefiting from relative policies, such as Great Wall Motor (2333 HK), Dongfeng (489 HK) and GAC Group (2238HK).

Auto Sector

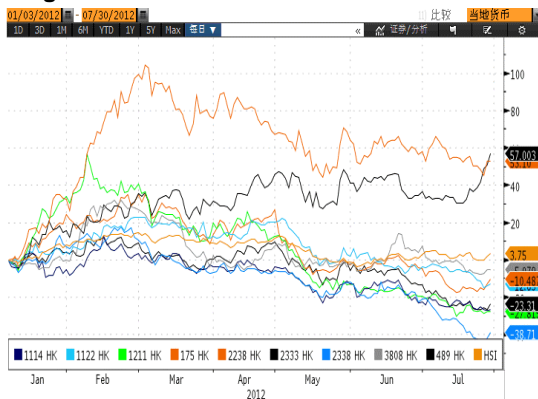
Company	Rating	Price(H K\$)	TP (HK\$)	Upside (%)	M.Cap.(HK \$'bn)
Dongfeng	BUY	10.82	15.1	39.6%	30.899
GAC-H	BUY	5.82	7.67	31.8%	12.881
Great Wall Motor	Accumulate	17.48	20.5	17.3%	18.06
BYD	Neutral	13.24	13.9	5.0%	10.501
Geely	Accumulate	2.58	2.9	12.4%	19.292
Brilliance	Accumulate	6.29	7.29	15.9%	31.612
Sinotruk	Neutral	4.09	4.13	1.0%	11.292
Weichai Power	Accumulate	23.55	27	14.6%	9.533
Qingling Motor	Accumulate	1.73	2.06	19.1%	2.143

Source: Bloomberg, PSR

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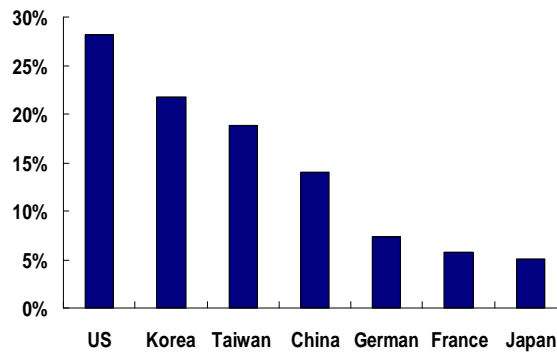
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Fig 12. Main auto stock trend from 2012



Source: Bloomberg, PSR

Fig 13. Market share of SUV Comparison



Source: PSR

Fig 14. Peer Comparison

Ticker	Name	M Cap	Est P/E	Est P/E (y+1)	B/Est EV/BEst EBITDA	P/B	ROA LF %	ROE %
EDM (3 securities)		(USD m)						
Average	Average	58326.8	6.7	6.5	7.4	1.1	5.2	21.3
DAI GR Equity	DAIMLER AG-REGISTERED SHARES	52403.3	7.8	6.9	8.5	1.1	4.0	14.9
BMW GR Equity	BAYERISCHE MOTOREN WERKE AG	47493.8	7.8	7.6	7.2	1.4	4.3	19.2
VOW GR Equity	VOLKSWAGEN AG	75083.3	4.4	5.0	6.5	1.0	7.3	29.8
EFR (2 securities)								
Average	Average	7898.2	5.0	5.9	9.0	0.3	0.4	6.6
RNO FP Equity	RENAULT SA	13077.8	5.0	3.7	9.5	0.4	2.2	9.0
UG FP Equity	PEUGEOT SA	2718.5	N/A	8.1	8.4	0.2	-1.4	4.3
HKD (12 securities)								
Average	Average	4380.2	9.6	7.7	17.3	1.6	7.9	17.7
489 HK Equity	DONGFENG MOTOR GRP CO LTD-H	12111.4	6.9	6.2	2.9	1.6	9.2	25.0
2238 HK Equity	GUANGZHOU AUTOMOBILE GROUP-H	6490.8	7.3	6.0	22.0	1.0	10.3	15.6
2333 HK Equity	GREAT WALL MOTOR COMPANY-H	7477.6	10.0	9.1	7.5	3.6	16.1	25.6
881 HK Equity	ZHONGSHENG GROUP HOLDINGS	2040.3	7.5	5.6	5.4	1.8	6.4	21.8
3808 HK Equity	SINOTRUK HONG KONG LTD	1459.8	11.1	8.8	6.2	0.5	1.9	5.4
2338 HK Equity	WEICHAI POWER CO LTD-H	5802.9	6.8	5.9	5.4	1.4	9.8	27.0
1122 HK Equity	QINGLING MOTORS CO LTD-H	553.8	9.1	8.0		0.5	3.4	4.9
1211 HK Equity	BYD CO LTD-H	4835.1	23.5	17.4	10.9	1.2	2.3	7.0
200625 CH Equity	CHONGQING CHANGAN AUTOMOBIL-B	3317.5	8.2	5.2	67.2	0.7	1.1	7.6
200550 CH Equity	JIANGLING MOTORS CORP LTD-B	1928.2	5.0	4.4	2.5	1.2	14.9	27.8
175 HK Equity	GEELY AUTOMOBILE HOLDINGS LT	2468.6	9.2	7.8	6.1	1.7	6.0	17.5
1114 HK Equity	BRILLIANCE CHINA AUTOMOTIVE	4076.7	11.1	8.6	54.0	3.8	13.9	27.2
INR (1 security)								
Average	Average	11580.2	40.5	30.8	3.6	2.2	11.0	52.1
TTMT IN Equity	TATA MOTORS LTD	11580.2	40.5	30.8	3.6	2.2	11.0	52.1
JPY (10 securities)								
Average	Average	29584.2	N/A	N/A	5.9	1.0	1.5	3.5
7201 JP Equity	NISSAN MOTOR CO LTD	43001.6	N/A	N/A	5.8	1.0	3.1	11.2
7203 JP Equity	TOYOTA MOTOR CORP	133130.7	N/A	N/A	10.2	0.9	0.9	2.7
7267 JP Equity	HONDA MOTOR CO LTD	59079.4	N/A	N/A	7.7	1.0	1.8	4.8
7269 JP Equity	SUZUKI MOTOR CORP	10336.4	N/A	N/A	2.8	0.8	2.4	5.5
7261 JP Equity	MAZDA MOTOR CORP	3643.0	N/A	N/A	6.7	0.6	-5.8	-24.0
6902 JP Equity	DENSO CORP	28472.0	N/A	N/A	4.1	1.0	2.6	4.5
7270 JP Equity	FUJI HEAVY INDUSTRIES LTD	5875.3	N/A	N/A	3.8	1.0	3.0	8.9
7272 JP Equity	YAMAHA MOTOR CO LTD	2982.6	N/A	N/A	6.2	0.8	2.9	9.7
7205 JP Equity	HINO MOTORS LTD	4011.0	N/A	N/A	4.9	1.5	2.1	8.1
7211 JP Equity	MITSUBISHI MOTORS CORP	5310.3	N/A	N/A	6.7		1.8	
KRW (2 securities)								
Average	Average	37088.5	7.3	6.8	6.2	1.8	9.8	25.9
000270 KS Equity	KIA MOTORS CORPORATION	28001.8	7.9	7.3	5.5	2.3	12.1	29.1
005380 KS Equity	HYUNDAI MOTOR CO	46175.1	6.7	6.3	7.0	1.3	7.5	22.7
SEK (2 securities)								
Average	Average	20154.1	12.0	10.0	7.4	2.4	6.3	25.9
VOLVB SS Equity	VOLVO AB-B SHS	26481.5	10.3	8.9	7.4	2.0	5.1	22.5
SCVA SS Equity	SCANIA AB-A SHS	13826.6	13.6	11.0		2.8	7.4	29.2
USD (8 securities)								
Average	Average	16815.6	12.3	11.0	11.3	2.6	7.3	17.0
MTLQ US Equity	MOTORS LIQUIDATION CO	N/A	N/A	N/A				
F US Equity	FORD MOTOR CO	34728.9	7.1	6.0	9.8	2.1	10.8	
DDAIF US Equity	DAIMLER AG-REGISTERED SHARES	52300.1	7.7	6.9		1.1	4.0	14.9
PCAR US Equity	PACCAR INC	14299.1	12.4	11.1	10.6	2.5	7.1	19.4
PAG US Equity	PENSKE AUTOMOTIVE GROUP INC	2136.1	11.0	9.9	12.1	1.8	4.2	16.2
KMX US Equity	CARMAX INC	6387.0	15.0	13.8	13.5	2.3	5.2	16.8
CPRT US Equity	COPART INC	3046.9	17.1	15.1	9.3	5.3	14.8	20.3
AN US Equity	AUTONATION INC	4811.0	16.1	14.2	12.8	3.1	4.7	14.2

Source: Bloomberg, PSR

PHILLIP RESEARCH STOCK SELECTION SYSTEMS

Total Return	Recommendation	Rating	Remarks
>+20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20% upside from the current price
-5% to +5%	Neutral	3	Trade within \pm 5% from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20% downside from the current price

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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