GAC (2238.HK)

Sales of Japanese cars recovered gradually

Phillip Securities (HK)Ltd
Phillip Securities Research

Bloomberg | Reuters | POEMS
2238.HK | 2238.HK | 2238.HK
Industry: Automobile

22 May 2013

FY2012&2013Q1 Result Review

Rating: Accumulate CP: 7.74HKD TP: 8.6HKD

Company Profile

As a large automobile manufacturer in China, GAC has JVs with Toyota, Honda, Mitsubishi and Fiat; the former two constitute 80% of its sales volumes and the majority of profit. It has an independent brand "Trumpchi". GAC Won nod for privatization of Denway (203@HK) in HKEx on Aug, 2010, and was listed in Shanghai Stock Exchange in March 2012.

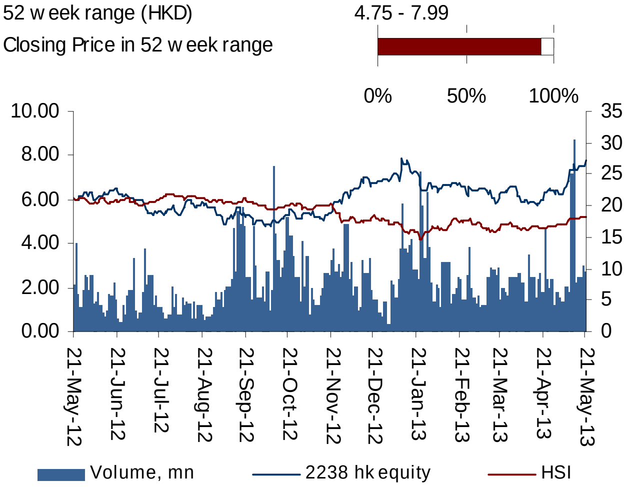
Summary

• Influenced by China-Japan Diaoyu Islands Event and the fact that the new joint ventures are still at the beginning, the net profits of GAC in the whole year of 2012 and the first quarter of 2013 respectively reduced by 73.5% and 47% to RMB 1.134 billion and 478 million yoy, in which the investment incomes respectively reduced by 43% and 17% respectively yoy. The final earrings per share were RMB 0.18 and RMB 0.07 respectively, while those of the same period in the last year were respectively RMB 0.69 and RMB 0.15. The board of directors proposed a final dividend of RMB 0.02/share, together with the medium-term dividend of RMB 0.07, also the dividend rate of the whole year of about 51%.

• Heavily affected by the anti-Japanese events and due to the ageing of main car models "Highlander" and "Accord", the sales volume of two JVs, GAC-Toyota and GAC-Honda respectively reduced by 8.9% and 12.7% yoy to 250,000 and 316,000 in 2012 and the productivity utilization was declined to 65%, in which the sale volume of the two both reduced by above 40% in 2012Q4 and the investment incomes contributed changed from positive to negative. The first car models of the new JVs GAC-Fiat and GAC-Mitsubishi was respectively launched in September and November, which was limited by the beginning and had not brought obvious benefit. Driven by SUV model, the independent brand "Trumpchi" has a substantial increase of sales volume by 92% to 32,600 in 2012.

• During 2013M4, sales volume of GAC increased by 19% to 227,000, in which the sales volume of GAC-Toyota started to significant rise, with accumulative yoy growth from flat to 8.4%, while the sales volume of GAC-Honda was relatively plain, with accumulated sales volume increasing by 1.1% yoy. The overall market share of Japanese cars in China reduced to 8.96% in October 2012. With the gradual mitigation of anti-Japanese events, the sales of Japanese cars have been recovered month by month. In April 2013, the overall market share of Japanese cars rebounded to about 18%, further shortening the gap with the previous level. Profit from

GAC		
Rating	**2.00**	**Accumulate**
- Previous Rating	*2.00*	*Accumulate*
Target Price (HKD)	**8.6**	
- Previous Target Price (HKD)	*7.18*	
Closing Price (HKD)	7.74	
Expected Capital Gains (%)	11.1%	
Expected Dividend Yield (%)	2.0%	
Expected Total Return (%)	**13.1%**	
Raw Beta (Past 2yrs weekly data)	1.18	
Market Cap. (HKD bn)	54,935	
Enterprise Value (HKD mn)	40,457	
52 week range (HKD)	4.75 - 7.99	
Closing Price in 52 week range		



Key Financial Summary

FYE	12/11	12/12	12/13F	12/14F
Revenue (RMB mn)	10,984	12,964	16,042	20,565
Net Profit, adj. (RMB mn)	4,272	1,134	2,531	3,868
EPS, adj. (RMB)	0.69	0.18	0.39	0.60
P/E (X),adj.	9.0	35.3	15.5	10.2
BVPS (RMB)	4.75	4.84	5.19	5.44
P/B (X)	1.3	1.3	1.2	1.1
DPS (RMB)	0.20	0.09	0.12	0.16
Div. Yield (%)	3.2%	1.4%	2.0%	2.6%

Source: Bloomberg, PSR est.

*All multiples & yields based on current market price

Valuation Method

PE

Analyst

Zhang Jing

zhangjing@phillip.com.cn

+86 63512937

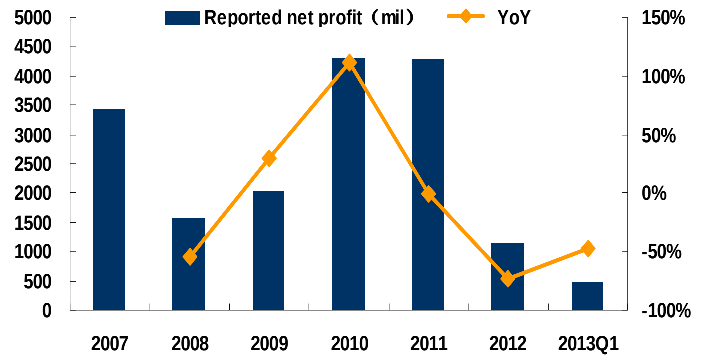
GAC-Honda and GAC-Toyota has accounted for over 90% of total profit of GAC Group and the improving of productivity utilization will bring a restorative growth to the Group's profit.

• As for new models, GAC-Honda plans to launch the 9th generation of Accord, the facelift EverusS1 and crossover vehicle - Crider specially aimed at the Chinese market in 2013, the latter positioned between Accord and Civic will fill in the blank of corresponding product chain. As most of the new models will be launched in the second half of the year, it is expected that the sales volume of GAC-Honda in the second half of the year will rebound significantly. There are fewer new models of GAC-Toyota in 2013, only including the facelift Verso and new model of Camry as well as the new generation of Yaris. It is expected that with the new production capacity of 240,000 is put into production, GAC-Toyota will accelerate the release of new models in 2014 and 2015. The independent brand of passenger vehicles of GAC started relatively lately, so the influence on profit in a short term is still limited

• As for new JVs, the two-compartment version of Viaggio from FIAT and Pajero Sport from Mitsubishi are hopefully to come into season in the latter half of the year, but it is difficult to contribute profits in 2013 due to the start-up cost and channel construction limitation. However, FIAT-Chrysler Alliance owns relatively sufficient product lines. It is hopeful for Jeep Cherokee to put into production in the latter half year of 2014 and to introduce at least 2 sets of new SUVs in 2015. By virtue of gradual introduction of booming SUV, GAC FIAT is expected to be the new profit increase point of the company in following three years.

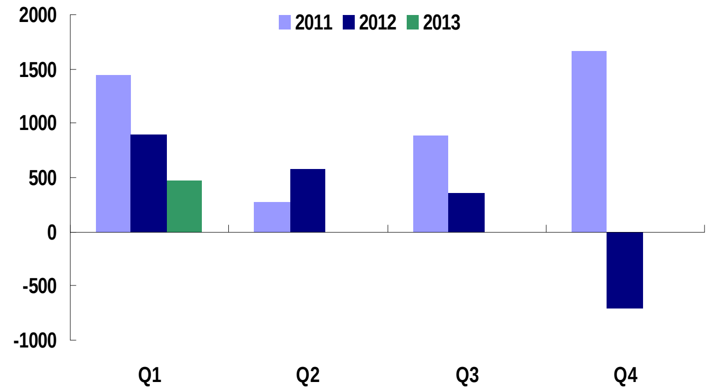
• Because there still is a lot of capital expenditure in this year and the next year, we predict that 2013 will still be the "ready-year" of GAC. There will be an expecting substantial growth of achievements in 2014. We adjust predicting EPS in 2013 and 2014 to RMB 0.39 and RMB 0.60, converting into HKD 0.49 and 0.76. Our 12-month target price of the GAC is HKD 8.6, equivalent to 17.4x and 11.3 P/E in 2013 and 2014, and 11% higher than current price, remains an "Accumulate" rating.

Fig 1. GAC's net profit by year (RMB: MIL)



Source: Company reports, Phillip Securities

Fig 2. GAC's net profit by quarter (RMB: MIL)



Source: Company reports, Phillip Securities

Fig 3. Peer Comparison

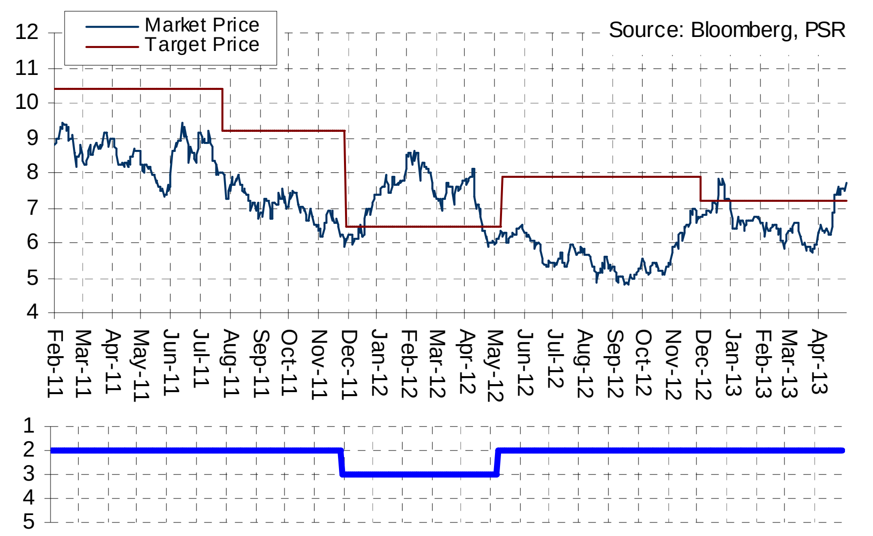
Ticker	Name	Mark Cap USD	Best P/E	Best P/E (Y+1)	BEst EV/BEst EBITDA	P/B	ROA LF (%)	ROE (%)
2238 HK Equity	GAC	7018	15.0	10.8		1.2	2.4	3.8
2333 HK Equity	GWM	17628	12.8	11.0	10.8	4.1	15.0	29.8
1211 HK Equity	BYD	12750	59.2	42.5	17.1	3.0	0.1	0.4
175 HK Equity	GEELY	4306	10.7	9.0	6.6	2.1	6.9	18.2
1114 HK Equity	BRILLIANCE	6125	12.7	10.3	469.8	3.8	15.9	27.1
489 HK Equity	DONGFENG	14075	8.9	8.3	4.5	1.6	7.8	18.1
F US Equity	FORD	69112	10.7	9.7	10.2	1.4	3.3	14.6
GM US Equity	GM	58098	10.8	9.1	4.7	3.4	3.1	36.6
RNO FP Equity	RENAULT	23689	8.2	6.5	9.6	0.7	2.4	7.3
VOW GR Equity	VOLKSWAGEN	101978	8.1	7.0	7.5	1.0	7.0	32.2
DAI GR Equity	DAIMLER	69143	10.7	9.7	10.2	1.4	3.3	14.6
BMW GR Equity	BMW	60993	9.4	9.2	8.3	1.5	3.9	17.8
UG FP Equity	PEUGEOT	3459	N/A	N/A	12.2	0.3	-7.5	-42.4
TTMT IN Equity	TATA	16105	9.8	7.9	4.7	2.9	11.0	52.1
7203 JP Equity	TOYOTA	225751	14.0	12.4	11.0	1.7	2.9	8.5
7267 JP Equity	HONDA	76003	12.8	11.3	9.5	1.5	2.9	7.8
7201 JP Equity	NISSAN	54609	10.8	9.4	8.0	1.4	2.9	9.9

Source: Bloomberg, Phillip Securities

FYE DEC	FY10	FY11	FY12	FY13F	FY14F
Valuation Ratios					
P/E (X), adj.	6.8	9.0	35.3	15.5	10.2
P/B (X)	1.1	1.3	1.3	1.2	1.1
Dividend Yield (%)	3.2%	3.2%	1.4%	2.0%	2.6%
Per share data (RMB)					
EPS, reported	0.92	0.69	0.18	0.39	0.60
EPS, adj.	0.92	0.69	0.18	0.39	0.60
DPS	0.20	0.20	0.09	0.12	0.16
BVPS	5.48	4.75	4.84	5.19	5.44
Growth & Margins (%)					
Growth					
Revenue	23.9%	25.6%	18.0%	23.7%	28.2%
EBIT	66.0%	-27.5%	-70.9%	118.5%	54.6%
Net Income, adj.	111.4%	-0.5%	-73.5%	123.2%	52.8%
Margins					
Gross margin	**8.5%**	**3.9%**	**5.3%**	**6.7%**	**8.9%**
EBIT margin	64.6%	37.3%	9.2%	16.3%	19.6%
Net Profit Margin	49.1%	38.9%	8.7%	15.8%	18.8%
Key Ratios					
ROE (%)	22.2%	15.6%	3.8%	7.8%	11.3%
ROA (%)	12.0%	10.3%	2.4%	4.9%	7.0%
Income Statement (RMB mn)					
Revenue	**8742**	**10984**	**12964**	**16042**	**20565**
Gross profit	743	424	690	1075	1830
EBIT	5649	4098	1193	2607	4030
Profit before tax	5522	4057	1000	2394	3736
Tax	-2	110	65	-59	-58
Profit for the period	5520	4167	1065	2335	3678
Minority interests	1225	-105	-69	-196	-190
Total capital share	4673	6148	6435	6435	6435
Net profit	**4295**	**4272**	**1134**	**2531**	**3868**

Source: PSR

Ratings History



PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
<-20%	Sell	5

Remarks

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

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 ± 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

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Contact Information (Regional Member Companies)

SINGAPORE
Phillip Securities Pte Ltd
Raffles City Tower
250, North Bridge Road #06-00
Singapore 179101
Tel : (65) 6533 6001
Fax : (65) 6535 6631
Website: www.poems.com.sg

MALAYSIA
Phillip Capital Management Sdn Bhd
B-3-6 Block B Level 3 Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450
Kuala Lumpur
Tel (603) 21628841
Fax (603) 21665099
Website: www.poems.com.my

HONG KONG
Phillip Securities (HK) Ltd
Exchange Participant of the Stock Exchange of Hong Kong
11/F United Centre 95 Queensway
Hong Kong
Tel (852) 22776600
Fax (852) 28685307
Websites**:** www.phillip.com.hk

JAPAN
PhillipCapital Japan K.K.
Nagata-cho Bldg.,
8F, 2-4-3 Nagata-cho,
Chiyoda-ku, Tokyo 100-0014
Tel (81-3) 35953631
Fax (81-3) 35953630
Website:www.phillip.co.jp

INDONESIA
PT Phillip Securities Indonesia
ANZ Tower Level 23B,
Jl Jend Sudirman Kav 33A
Jakarta 10220 – Indonesia
Tel (62-21) 57900800
Fax (62-21) 57900809
Website: www.phillip.co.id

CHINA
Phillip Financial Advisory (Shanghai) Co. Ltd
No 550 Yan An East Road,
Ocean Tower Unit 2318,
Postal code 200001
Tel (86-21) 51699200
Fax (86-21) 63512940
Website: www.phillip.com.cn

THAILAND
Phillip Securities (Thailand) Public Co. Ltd
15th Floor, Vorawat Building,
849 Silom Road, Silom, Bangrak,
Bangkok 10500 Thailand
Tel (66-2) 6351700 / 22680999
Fax (66-2) 22680921
Website www.phillip.co.th

FRANCE
King & Shaxson Capital Limited
3rd Floor, 35 Rue de la Bienfaisance 75008
Paris France
Tel (33-1) 45633100
Fax (33-1) 45636017
Website: www.kingandshaxson.com

UNITED KINGDOM
King & Shaxson Capital Limited
6th Floor, Candlewick House,
120 Cannon Street,
London, EC4N 6AS
Tel (44-20) 7426 5950
Fax (44-20) 7626 1757
Website: www.kingandshaxson.com

UNITED STATES
Phillip Futures Inc
141 W Jackson Blvd Ste 3050
The Chicago Board of Trade Building
Chicago, IL 60604 USA
Tel +1.312.356.9000
Fax +1.312.356.9005

AUSTRALIA
PhillipCapital Australia
Level 37, 530 Collins Street,
Melbourne, Victoria 3000, Australia
Tel (613) 96298380
Fax (613) 96148309
Website: www.phillipcapital.com.au