

# Dongfeng Group(489.HK)



## New power from launch of new models in 2014

Phillip Securities (HK) Ltd  
Phillip Securities Research

Bloomberg | Reuters | POEMS

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Industry: Automobile

19 May 2014

### Company update

Rating: Accumulate CP: 10.28 HKD TP: 12.30 HKD

### Company Profile

As the third largest automaker in China, Dongfeng is primarily engaged in the manufacture and sale of commercial vehicles, passenger vehicles and auto engines and parts as well as other automotive-related businesses. It listed in HKEx in 2005. Under its banner there are 3 joint ventures Dongfeng Nissan, Dongfeng Peugeot Citroen and Dongfeng Honda.

### Summary

• **FY2013 result review:** Revenues of Dongfeng Group in 2013 amounted to 161.253 billion (the proportionate consolidation method), up 30% y-y. Net profit attributable to the parent company was 10.528 billion, increased by 15.8% y-y. The EPS was 1.22 compared with 1.06 in last year, and the DPS recorded 18 cents compared with 15 cents in last year.

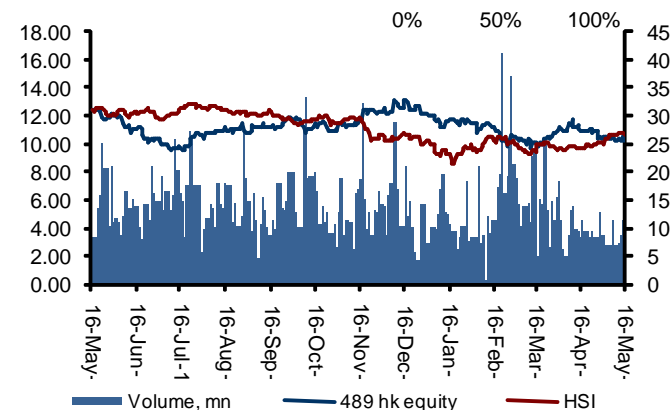
• **Sales volume amounted to 2.57 million, up 19%:** The sales volume of the Group in 2013 increased by 19.1% y-y to 2,567,700 units, the growth rate trended to go up from the low rate at the beginning, and the market share grew 0.52ppts to 11.7%. APS of passenger and commercial vehicles increased by 0.2% and 51% respectively benefited from the better structure of sales

• **13H2 saw obvious improvement:** The performance developed obviously in 2H2013 as our expectation, net profit increased largely by 34% y-y, main reasons are: 1) low base affected by the political event at the same period of 2012, 2) the quantity increased after important models launched, 3) the strong recovery of heavy-duty truck industry from the middle of 2013. The gross margin increased from 19.2% in 2012 to 19.8% affected by the above positive factors, the gross margin of passenger vehicles increased by 0.4ppts from 20.8% to 21.2%, and the gross margin of commercial vehicles grew 1.8ppts from 12.7% to 14.5%. However, sales and administrative expenses, and financial cost ratio increased due to the growth of the market promotion expense, labor cost and R&D.

• **Lack of the sustained momentum for strong recovery:** On a closer look, passenger vehicles were sold by 2,118,500 units, up 21.7% y-y, and commercial vehicles were sold by 449,200 units, up 8.3% y-y. In the Group's joint venture companies, the growth of Japanese cars was lower than others: The sales volume of Dongfeng Nissan rose 20% y-y to 926,000 units, Dongfeng Honda increased by 14% y-y to 320,000 units, Dongfeng PSA grew 25% y-y to 550,000 units, and self-owned brand Fengshen sold 80,000 units, up 33% y-y.

### Dongfeng

<b>Rating</b>	<b>2.00</b>	<b>Accumulate</b>
- Previous Rating	2.00	Accumulate
<b>Target Price (HKD)</b>	<b>12.3</b>	
- Previous Target Price (HKD)	13	
Closing Price (HKD)	10.28	
Expected Capital Gains (%)	19.6%	
Expected Dividend Yield (%)	2.2%	
<b>Expected Total Return (%)</b>	<b>21.9%</b>	
Raw Beta (Past 2yrs weekly data)	1.01	
Market Cap. (HKD bn)	88,574	
Enterprise Value (HKD mn)	67,994	
52 week range (HKD)	9.48 - 13.28	
Closing Price in 52 week range		



### Key Financial Summary

FYE	12/12	12/13	12/14F	12/15F
Revenue (RMB mn)	124,036	161,253	176,530	201,162
Net Profit, adj. (RMB mn)	9,092	10,528	10,997	12,860
EPS, adj. (RMB)	1.06	1.22	1.28	1.49
P/E (X),adj.	7.9	6.6	6.3	5.4
BVPS (RMB)	6.26	7.33	8.05	9.33
P/B (X)	1.3	1.1	1.0	0.9
DPS (RMB)	0.15	0.18	0.20	0.23
Div. Yield (%)	1.8%	2.2%	2.5%	2.9%

Source: Bloomberg, PSR est.

\*All multiples & yields based on current market price

### Valuation Method

PE&PB

### Analyst

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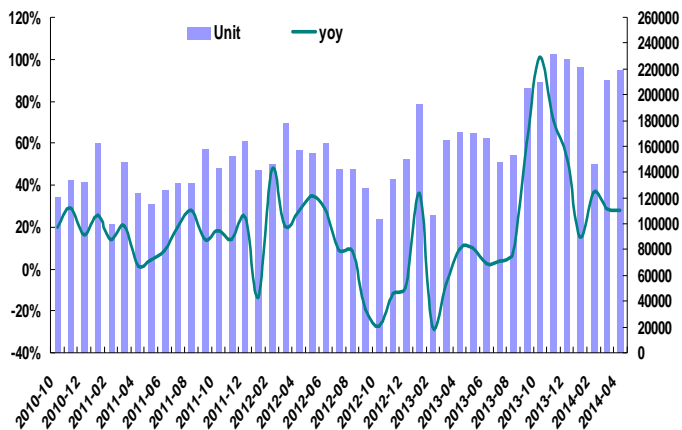
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Dongfeng Liuzhou sold about 180,000 units, up 32% y-y, and Zhengzhou Nissan sold 55,000 units, increased by 16% y-y. According to the latest sales data of 2014, there seemed to be lack of the sustainability of the strong recovery for its main models although the Japanese JVs have resuscitated. From March 2014, the sales volume of Venucia's two models started to increase, total sales surpassed 10,000 units, but Teana only sold around 25,000 units in 1Q2014, much inferior to the German peers.

• **New power of sales due to the launch of new models in 2014:** the Company's sales target is 2.84 million units in 2014, up 10.6% y-y, with 2.4 million units of passenger vehicles (+13.3%), and 0.4 million units of commercial vehicles (-11%). According to JV companies, the targets are Dongfeng Nissan's 1.05-1.1 million units, Dongfeng Citroen's 0.6-0.65 million units, Dongfeng Honda's 0.35 million units, and the self-owned brand, Aeolus's 0.1 million units, increased by 13.4-18.8%, 9.1-18.2%, 9.4% and 25% y-y respectively. The Group is planning to introduce 10 new passenger vehicles among which four of them focus on the current popular SUV market, including Dongfeng Nissan's new X-Trail, Infinite's domestic model Q50L, Venucia's A0-class model R30 and a new model of SUV, Dongfeng Honda's new Spirior, Dongfeng PSA's new 408 and SUV2008, the self-owned brand, Fengshen's compact sedan D23 and SUVG29, and Dongfeng Liuzhou's Joyear S3 and DM7.

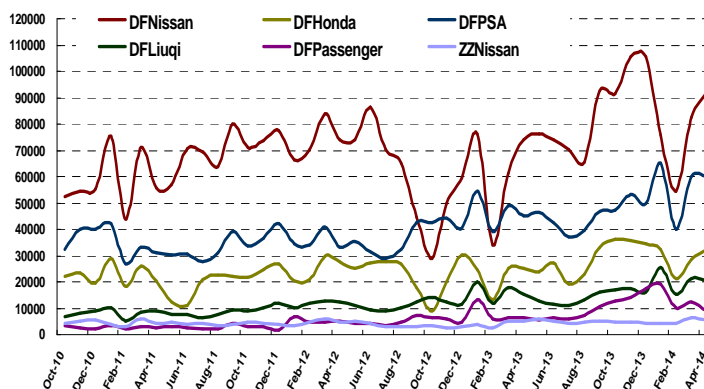
• **Valuation and rating:** We have respectively adjusted the company's profits forecast and revise our target price for 12 months to HK\$12.3, equivalent to 7.6/6.4xP/E and 1.2/1.0xP/B in 2014/2015 respectively, which is the lowest valuation among peers in HKEx. We maintain our "Accumulate" rating.

Fig 1. Monthly Passenger car sales of Dongfeng Group



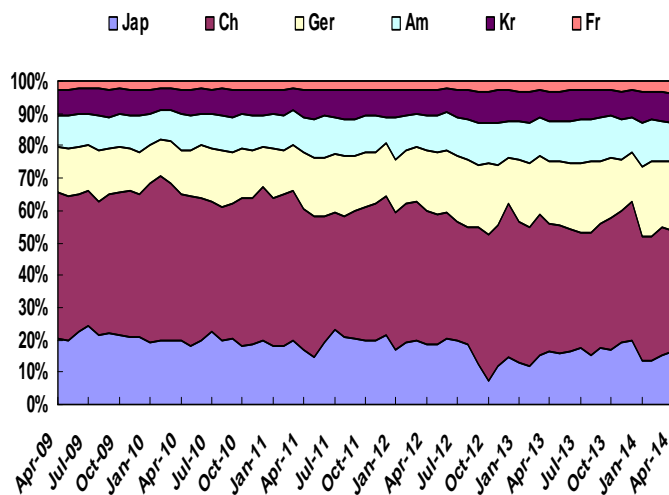
Source: Company reports, Phillip Securities

Fig 2. Monthly sales of Dongfeng's passenger JV



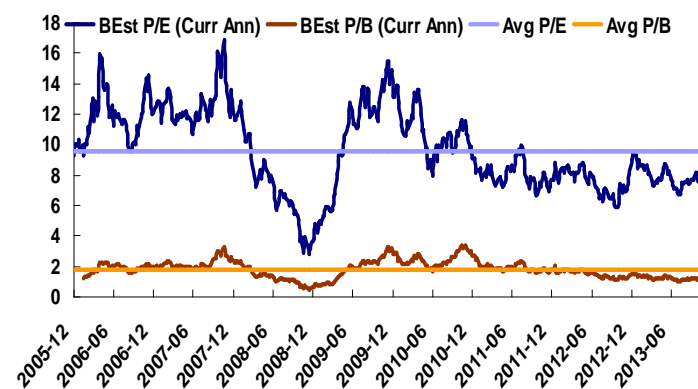
Source: Company reports, Phillip Securities

Fig 3. Market share breakdown of China Passenger Car



Source: Company reports, Phillip Securities

Fig 4. History Valuation Band of Dongfeng



Source: Bloomberg, Phillip Securities

**Risk**

- Fuel and material cost up greatly.
- Deterioration of automobile demand led by further crisis
- Popularity of new models launched by the joint ventures
- The non-controllable factors impact through supply chain.

Fig 5. Peer Comparison

Ticker	Mark Cap (HKD)	Best			Best		Best		Best		ROA	OPM		GM		PM	
		Best P/B	P/B (y+1)	Best P/E	Best P/E	Best P/E	Best P/E	Best EV/BEst	EBITDA P/B	LF		ROE	LF	LF	LF	LF	LF
VOW GR	923424	0.9	0.9	8.5	7.5	7.3	1.1	2.9	11.8	6.0	18.7	5.0					
DAI GR	750171	1.5	1.3	11.0	9.6	9.4	1.7	4.3	18.0	7.2	21.8	3.5					
BMW GR	589919	1.5	1.3	9.9	9.4	9.2	1.5	4.0	16.0	11.5	21.2	8.0					
RNO FP	205977	0.8	0.7	8.9	6.6	9.1	0.8	0.8	2.5	3.2	17.7	2.7					
UG FP	76619	0.7	0.7	N/A	10.2	10.7	0.6	-3.7	-28.3	-0.4	15.0	-7.2					
489 HK	88229	1.0	0.9	6.4	5.8	3.8	1.1	11.8	18.0	-3.0	12.6	18.1					
1211 HK	111059	3.2	2.9	62.1	42.0	18.7	3.5	0.7	2.6	4.0	12.6	0.5					
2333 HK	96265	1.9	1.6	7.1	5.9	5.9	2.4	17.3	33.2	16.2	25.6	14.1					
200625 CH	64061	2.2	1.6	8.5	6.3	12.9	2.6	9.2	26.8	-0.8	12.2	16.8					
1114 HK	63425	3.0	2.4	12.1	10.1	N/A	3.9	19.3	29.3	-3.2	11.6	38.1					
2238 HK	54893	1.1	1.0	9.2	7.3	131.3	1.2	4.9	8.2	-2.2	12.9	13.6					
2338 HK	45756	1.3	1.2	10.0	8.7	6.3	1.6	4.9	13.6	7.0	20.4	5.5					
175 HK	25854	1.8	1.5	9.9	7.2	5.5	2.0	11.7	19.6	9.3	21.5	10.1					
200550 CH	23852	1.0	0.9	6.8	5.8	3.5	1.2	8.2	18.4	10.3	21.1	9.1					
3808 HK	11348	0.5	0.5	17.0	13.2	6.6	0.5	0.6	1.5	2.6	16.8	0.5					
1122 HK	6082	0.7	0.6	12.1	11.4	2.5	0.7	3.3	4.4	7.1	15.7	6.1					
TTMT IN	178476	2.7	2.1	9.9	8.6	4.5	3.9	6.3	28.1	9.0		5.2					
7203 JP	1452688	1.1	1.0	8.8	8.0	8.9	1.2	4.7	13.7	6.6	18.8	4.5					
7267 JP	464099	1.0	0.9	9.3	8.3	8.0	1.0	3.9	10.5	5.3	26.5	5.5					
7201 JP	308357	0.8	0.8	8.7	7.5	8.8	0.9	2.8	9.6	6.2	18.5	3.6					
6902 JP	300027	1.2	1.1	12.2	11.1	5.5	1.3	6.8	11.5	8.1	17.9	5.7					
7270 JP	148968	2.0	1.7	8.1	7.7	3.8	2.5	11.9	30.4	13.3	28.4	3.6					
7269 JP	119772	1.1	1.0	13.0	12.1	3.7	1.2	4.0	8.7	6.1	25.7	2.9					
7261 JP	98174	1.6	1.3	7.1	7.3	5.3	1.9	6.4	23.5	7.6	27.0	7.8					
7211 JP	78653	2.0	1.8	9.1	8.5	3.5	1.9	7.0	N/A	4.7	19.3	2.8					
005380 KS	390793	1.1	N/A	N/A	N/A	N/A	1.2		10.5	9.0		8.9					
000270 KS	177872	1.0	N/A	6.4	5.9	N/A	1.3	11.1	15.6	6.2	20.4	7.3					
VOLVB SS	255123	2.7	2.4	20.6	12.9	11.2	2.7	1.5	6.6	3.4	22.8	1.7					
SCVA SS	187228	4.0	3.6	22.7	19.6	15.3	4.1	5.3	17.1	14.2	25.1	7.4					
F US	479748	2.1	1.7	11.9	8.3	5.5	2.3	3.2	29.4	2.1	11.6	2.8					
GM US	427153	1.3	1.2	10.7	7.3	3.2	1.4	2.7	9.1	-1.4	8.8	0.6					

Source: Bloomberg, Phillip Securities

FYE DEC	FY11	FY12	FY13	FY14F	FY15F
<b>Valuation Ratios</b>					
P/E (X), adj.	6.9	7.9	6.6	6.3	5.4
P/B (X)	1.6	1.3	1.1	1.0	0.9
Dividend Yield (%)	2.2%	1.8%	2.2%	2.5%	2.9%
<b>Per share data (RMB)</b>					
EPS, reported	1.22	1.06	1.22	1.28	1.49
EPS, adj.	1.22	1.06	1.22	1.28	1.49
DPS	0.18	0.15	0.18	0.20	0.23
BVPS	5.4	6.3	7.3	8.0	9.3
<b>Growth &amp; Margins (%)</b>					
<b>Growth</b>					
Revenue	7.4%	-5.6%	30.0%	9.5%	14.0%
EBIT	-0.3%	-12.0%	20.7%	3.5%	16.3%
Net Income, adj.	-4.6%	-13.3%	15.8%	4.5%	16.9%
<b>Margins</b>					
EBIT margin	11.2%	10.5%	9.7%	9.2%	9.4%
Net Profit Margin	8.0%	7.3%	6.5%	6.2%	6.4%
<b>Key Ratios</b>					
ROE (%)	24.99%	18.13%	17.99%	16.61%	17.18%
ROA (%)	9.19%	7.83%	7.36%	6.22%	6.77%

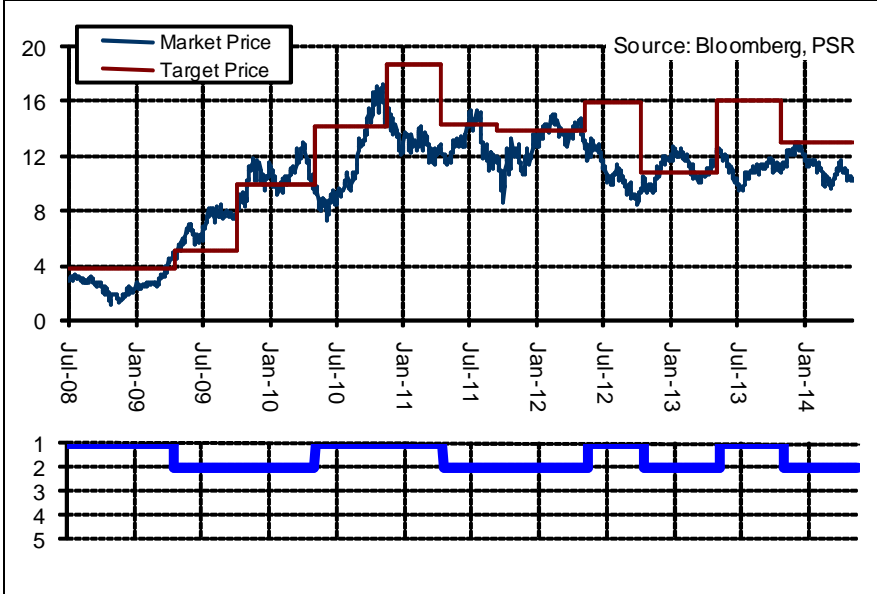
<b>Income Statement (RMB mn)</b>					
<b>Revenue</b>	<b>131441</b>	<b>124036</b>	<b>161253</b>	<b>176530</b>	<b>201162</b>
<b>Gross profit</b>	26390	23876	31900	34529	39408
EBIT	14763	12986	15679	16223	18864
Profit before tax	14361	12758	15448	15712	18293
<b>Tax</b>	<b>(3401)</b>	<b>(2919)</b>	<b>(3989)</b>	<b>(3771)</b>	<b>(4390)</b>
Profit for the period	10960	9779	11459	11941	13903
Minority interests	(479)	(687)	(931)	(943)	(1043)
Total capital share	8616	8616	8616	8616	8616
<b>Net profit</b>	<b>10481</b>	<b>9092</b>	<b>10528</b>	<b>10997</b>	<b>12860</b>

Source: PSR

	FY11	FY12	FY13	FY14F	FY15F
<b>Balance Sheet (HKD mn)</b>					
<b>Total Assets</b>	<b>117533</b>	<b>114810</b>	<b>171204</b>	<b>182536</b>	<b>197537</b>
Total liabilities	67949	57177	103563	108437	112217
Minority interests	3190	3715	4506	4782	4947
<b>Shareholders' Equity</b>	<b>46394</b>	<b>53918</b>	<b>63135</b>	<b>69317</b>	<b>80373</b>

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

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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

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