

# CAR Inc (699.HK)

## The new business has huge potential

Hong Kong | Public Transportation | Update Report

11 May 2015

### Turned loss to a net profit of RMB440 million in FY2014

In 2014, CAR (China Auto Rental Ltd.) recorded a revenue of RMB3.52 billion, a net profit of RMB436 million and a diluted EPS of RMB0.21, basically meeting our prior forecast.

### Traditional business continued to grow

CAR continued to solidify its industry leading position in the Chinese market. In the reported period, the average rent per day and average income per day per vehicle increased from RMB246 and 142 in 2013 to 272 and 170 respectively. In the meantime, the fleet utilization rate increased from 57.9% in 2013 to 62.2% in 2014.

### Gross margin was up by nearly 12 ppts

Thanks to economies of scale and outstanding cost control, CAR's gross margin increased from 23.3% in 2013 by 11.94 ppts to 35.21% in 2014, out of which, the gross margin on rental business jumped 12.2 ppts to 42.1% while that on sale of used-cars increased sharply by 10.4 ppts from -5.5% in 2013 to 4.9% in 2014, making it a profit-making business.

Thanks largely to economies of scale and operating efficiency improvement, in the reported period, the selling, administrative and financial expenses were down by 39%, 7% and 8% respectively on yoy basis. CAR was in fairly good financial position and as of the end of 2014, its debt to asset ratio was down from 62% in 2013 to 37% and the net debt/asset ratio was down by 37 ppts from 48.1% in 2013 to 11.5%.

### The chauffeured car new business has huge potential

CAR announced in the end of January that it would partner with UCAR Technology to launch "UCAR Chauffeured car" service. We believe that cities in China have a huge potential for chauffeured cars and the UCAR Chauffeured car service, although introduced later, will overtake on curves due to our apparent competitive advantages over other companies offering chauffeured car service. We estimate that UCAR Chauffeured car fleet will grow to the size of 30,000-40,000 units by 2015.

### Investment Thesis

By a conservative estimate, we forecast that CAR's rental income will increase by more than 50% in 2015. In the meantime, the bond issuance in the amount of USD500 million is likely to add RMB170 million to the financial cost. We forecast EPS for 2015/2016/2017 to be at RMB0.48/0.82/1.17 respectively and set a 12-month target price of HK\$19.94. Corresponding to the PE ratio of 33/19/14 for 2015/2016/2017, we therefore reaffirm the "Accumulate" rating. (Closing price as at 7 May 2015)

### Accumulate (Maintain)

CMP: HKD 17.40

(Closing price as at 7 May 2015)

TARGET: HKD 19.94 (+14.6%)

#### COMPANY DATA

O/S SHARES (MN) :	2398
MARKET CAP (HKD MN) :	41123
52 - WK HI/LO (HKD):	19.86 / 9.88

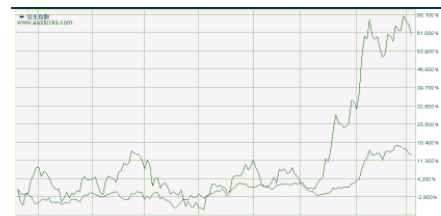
#### SHARE HOLDING PATTERN, %

Grand Union	29.2
Amber Gem.	18.8
Hertz	16.7
Haode Group	12.5

#### PRICE PERFORMANCE, %

	1M	3M	1Y
CAR	16.71	58.84	NA
HIS index	7.35	46.84	NA

#### PRICE VS. HSI



Source: Phillip Securities (HK) Research

#### KEY FINANCIALS

CNY mn	FY14	FY15E	FY16E	FY17E
Net Sales	3,520	5,214	6,913	9,087
Net Profit	436	1,138	1,943	2,771
EPS, CNY	0.21	0.47	0.81	1.16
P/E, x	64.9	29.0	16.9	11.8
BVPS, CNY	2.79	2.84	3.61	4.45
P/BV, x	4.9	4.8	3.8	3.1
DPS (CNY)	0.00	0.02	0.05	0.10
Div. Yield (%)	0.0%	0.1%	0.4%	0.7%

Source: Company reports, Phillip Securities Est.

Research Analyst

**ZhangJing**

+86 21 63512937-104

zhangjing@phillip.com.cn

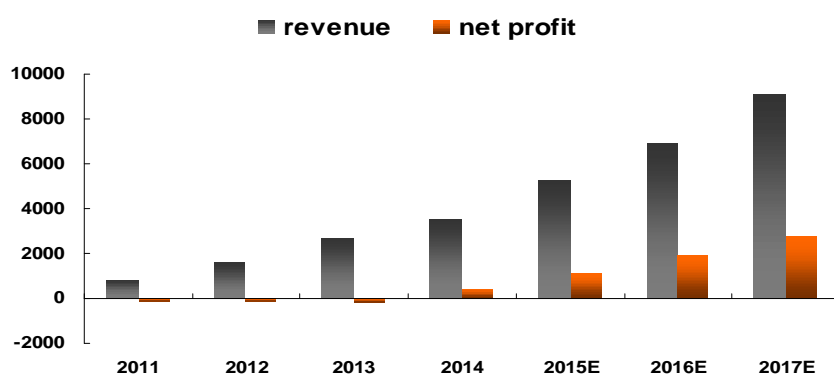
### Turned loss to a net profit of RMB440 million in 2014, meeting expectations

CAR's rental income and total income both grew by 30% yoy in 2014. It recorded total revenue of RMB3.52 billion and successfully turned profitable, posting a net profit of RMB436 million and a diluted EPS of RMB0.21, basically within the range of our prior forecast of RMB0.20, without distribution of end dividends.

### Traditional business continued to grow and operating indicators were improved

CAR recorded revenues of RMB2.87 billion and 654 million from car rental and sale of used-cars respectively, two major sources of CAR's income, representing a growth of 29.8% and 32.2% yoy. The size of the fleet in operation increased by 38% to 58,773 units in 2014, 75% of which were short-term vehicles, 16% were long-term vehicles and 9% were financial leasing vehicles. As of the end of 2014, the number of service outlets directly operated by CAR increased to 723 that included 489 pick-up sites.

### CAR's revenue and net profit

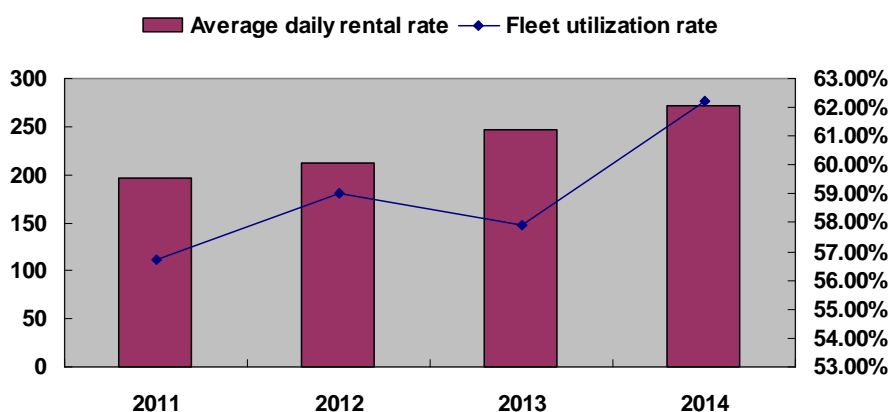


Source: Company data, Phillip Securities Hong Kong Research

CAR continued to solidify its industry leading position in the Chinese market, significantly boosting the company's operating indicators. In the reported period, the average rent per day and average income per day per vehicle increased from RMB246 and 142 in 2013 to 272 and 170 respectively. In the meantime, the fleet utilization rate increased from 57.9% in 2013 to 62.2% in 2014.

Thanks to the economies of scale and outstanding cost control, the direct operating costs increased by merely 15% yoy and the percentage over rental income dropped by 4.5 ppts to 34.5%.

### CAR's main index

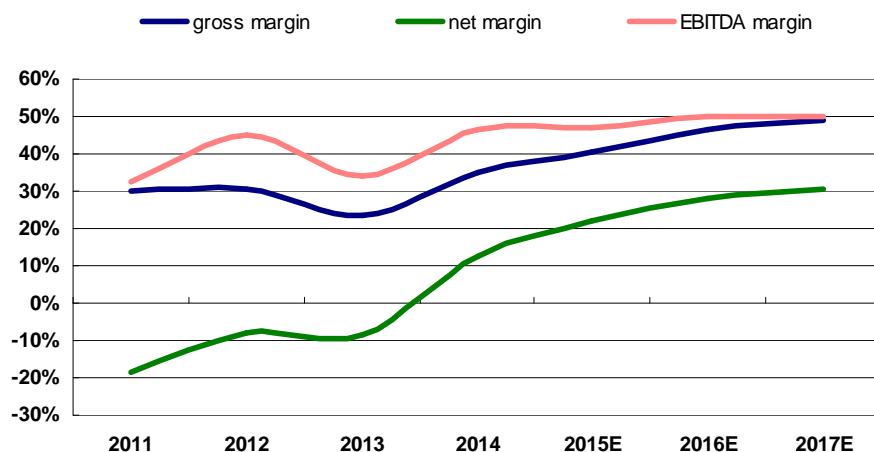


Source: Company data, Phillip Securities Hong Kong Research

### Gross margin jumped by nearly 12 ppts

Due to the steady increase of average income per day per vehicle, operating efficiency improvement and reduction of costs associated with the fleet not in operation, CAR's gross profit increased from RMB630 million in 2013 by 97% to RMB1.239 billion, and its gross margin increased from 23.3% in 2013 by 11.94 ppts to 35.21% in 2014, out of which, the gross margin on rental business jumped 12.2 ppts to 42.1% while that on sale of used-cars increased sharply by 10.4 ppts from -5.5% in 2013 to 4.9% in 2014, making it a profit-making business.

### CAR's margin



Source: Company data, Phillip Securities Hong Kong Research

The good scale economy was also reflected in the reduction of operating expenses. In the reported period, the selling expenses were down by 39% yoy to RMB92.7 million mainly attributable to the growth in booking through CAR's mobile application, continued downsize of long-term car rental sales team and the decrease in the demand for brand marketing. Administrative expenses dropped by 7% yoy to RMB350 million mainly attributable to economies of scale, administrative efficiency improvement and C&B reform. Financial expenses dropped by 8% yoy to RMB310 million.

CAR was in fairly good financial position. As of the end of 2014, its debt to asset ratio was down sharply by 25 ppts from 62% in 2013 to 37%. It had around RMB2.48 billion cash in hand and the net debt/asset ratio was down by 37 ppts from 48.1% in 2013 to 11.5%.

### The chauffeured car new business promised huge potential

CAR announced in the end of January that it would partner with UCAR Technology to launch "UCAR Chauffeured car" service. According to the agreement, CAR will provide UCAR Technology with short-term and long-term rental cars at fair market prices while UCAR Technology, as an independent third-party chauffeured car service provider, will offer premium chauffeured car service in China by leveraging on CAR's fleet size and brand awareness.

We believe that at least for the following reasons, cities in China have a huge potential for chauffeured cars and the UCAR Chauffeured car service, although introduced later, will overtake on curves due to our apparent competitive advantages over other companies offering chauffeured car service.

1) Chauffeured cars are sort of substitutes for part of taxis. Taxis are in short supply by a huge gap due to government license requirement and quantity control. In Beijing, for example, the total number of taxis by the end of 2003 was 65,000 units and remained 66,000 units in 2012 while by contrast, its permanent residents increased

by 6.22 million for the same period. In the period of 2009-2013, the total number of taxis in operation in the entire country increased by merely 150,000 to 1.3 million units, representing a less than 3% annual growth rate. A 1% replacement rate by chauffeured cars will translate to a nearly 10-billion-yuan market.

2) The prior intensified marketing campaigns launched by Didi Taxi and other operators have won the recognition of chauffeured cars from both the market and the government. The government has clarified its stance on prohibiting private cars from offering the service, leaving vehicles with the operating license to be the only participants. This has made the vehicles in the terminal of the service very important relative to the platform. CAR, as a qualified operator with the biggest size, has unquestionable competitive advantage over its competitors.

3) Capital and vehicle plates are two major obstacles that face our competitors. The huge prior investment has drained capital of our competitors. In addition, the restriction on issuing vehicle plates in large and medium-sized cities in China has added to their operating difficulties. In comparison, CAR's advantage is apparent as it has a large number of vehicle plates from the plate-restricting cities.

4) CAR emphasizes on customer experience and technical platform. Improving customer service will bring good customer experience and thus increases customer retention. Its value-added services include accident insurance, GPS, 7\*24 road assistance, vehicle pick-up and return as well as vehicle return to a different location etc. With regards to the IT platform, as of the end of 2014, the total installations of CAR mobile application reached 7 million. In December of 2014, 51% of orders came from its mobile application.

## Peer Comparison

Ticker	Name	Mkt Cap (HKDmil)	BEst P/B	BEst P/B:2FY	BEst P/E:1FY	BEst P/E:2FY	BEst EV/BEst EBITDA	P/B	ROA LF	ROE	OPM LF	GPM LF	PM LF
BRL (1 security)													
RENT3 BZ Equity	LOCALIZA RENT A C.	20382	4.09	3.56	18.20	16.36	8.73	4.64	7.99	27.40	16.80	29.65	9.88
EDM (1 security)													
SIX2 GR Equity	SIXT SE	16439	2.67	2.45	18.24	16.94	5.65	2.87	4.24	15.50	8.30	N/A	3.96
HKD (1 security)													
699 HK Equity	CAR INC	40785	4.83	3.87	30.06	18.89	12.52	N/A	5.45	15.40	23.37	54.24	12.39
USD (3)													
HTZ US Equity	HERTZ GLOBAL HOL	75184	3.27	2.94	34.12	19.53	18.82	3.44	1.48	13.40	9.85	43.70	-0.02
CAR US Equity	AVIS BUDGET GRO	45801	2.86	2.53	15.85	13.74	17.60	8.85	1.47	34.10	7.95	48.17	1.22
EHIC US Equity	EHIC CAR SERVICES	5021	1.60	1.34	43.75	15.29	6.59	0.43	-3.22	N/A	-8.94	N/A	-18.47

Source: Company, Phillip Securities Hong Kong Research

## Financials

FYE DEC	FY12	FY13	FY14	FY15F	FY16F	FY17F
<b>Valuation Ratios</b>						
P/E (X), adj.	NA	NA	64.9	29.0	16.9	11.8
P/B (X)	NA	NA	4.9	4.8	3.8	3.1
Dividend Yield (%)	NA	NA	0.0%	0.1%	0.4%	0.7%
Dividend payout ratio (%)	NA	NA	0.0%	4.2%	6.2%	8.7%
<b>Per share data (RMB)</b>						
EPS, reported	NA	-0.12	0.22	0.48	0.82	1.17
EPS, adj.	NA	-0.12	0.21	0.47	0.81	1.16
DPS	NA	NA	0.00	0.02	0.05	0.10
BVPS	NA	NA	2.79	2.84	3.61	4.45
<b>Growth &amp; Margins (%)</b>						
<b>Growth</b>						
Revenue	96.4%	68.0%	30.3%	48.1%	32.6%	31.4%
EBIT	-1354.7%	-32.8%	713.1%	100.3%	61.6%	42.4%
Net Income, adj.	NA	NA	NA	160.9%	70.8%	42.6%
<b>Margins</b>						
<b>Gross margin</b>	<b>30.6%</b>	<b>23.3%</b>	<b>35.2%</b>	<b>40.6%</b>	<b>46.4%</b>	<b>48.9%</b>
EBIT margin	9.1%	3.6%	22.6%	30.6%	37.3%	40.4%
Net Profit Margin	NA	NA	12.4%	21.8%	28.1%	30.5%
<b>Key Ratios</b>						
ROE (%)	-161.99%	-505.00%	15.4%	18.5%	25.6%	29.2%
ROA (%)	-3.00%	-3.98%	5.4%	10.7%	15.4%	18.5%
<b>Income Statement (RMB mn)</b>						
<b>Revenue</b>	<b>1609</b>	<b>2703</b>	<b>3520</b>	<b>5214</b>	<b>6913</b>	<b>9087</b>
- Cost of Revenue	1116	2074	-2281	-3097	-3705	-4642
<b>Gross Profit</b>	<b>493</b>	<b>629</b>	<b>1239</b>	<b>2117</b>	<b>3208</b>	<b>4445</b>
Other income	-8	21	26	40	53	62
Selling Expense	-140	-153	-93	-104	-111	-136
Admin Expense	-207	-378	-350	-417	-518	-636
Interest Expense	-270	-335	-309	-297	-346	-436
<b>Operating Income</b>	<b>146</b>	<b>98</b>	<b>797</b>	<b>1596</b>	<b>2579</b>	<b>3673</b>
<b>EBT</b>	<b>-132</b>	<b>-216</b>	<b>513</b>	<b>1338</b>	<b>2286</b>	<b>3298</b>
- Income Tax	0	-7	-77	-201	-343	-528
<b>Net profit</b>	<b>-132</b>	<b>-223</b>	<b>436</b>	<b>1138</b>	<b>1943</b>	<b>2771</b>
Total capital share	NA	1867	2005	2358	2358	2359

Source: PSR

(Financial figures as at 7 May 2015)

### 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

### GENERAL DISCLAIMER

This publication is prepared by Phillip Securities (Hong Kong) Ltd ("Phillip Securities"). By receiving or reading this publication, you agree to be bound by the terms and limitations set out below.

This publication shall not be reproduced in whole or in part, distributed or published by you for any purpose. Phillip Securities shall not be liable for any direct or consequential loss arising from any use of material contained in this publication.

The information contained in this publication has been obtained from public sources which Phillip Securities has no reason to believe are unreliable and any analysis, forecasts, projections, expectations and opinions (collectively the "Research") contained in this publication are based on such information and are expressions of belief only. Phillip Securities has not verified this information and no representation or warranty, express or implied, is made that such information or Research is accurate, complete or verified or should be relied upon as such. Any such information or Research contained in this publication is subject to change, and Phillip Securities shall not have any responsibility to maintain the information or Research made available or to supply any corrections, updates or releases in connection therewith. In no event will Phillip Securities be liable for any special, indirect, incidental or consequential damages which may be incurred from the use of the information or Research made available, even if it has been advised of the possibility of such damages.

Any opinions, forecasts, assumptions, estimates, valuations and prices contained in this material are as of the date indicated and are subject to change at any time without prior notice.

This material is intended for general circulation only and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. The products mentioned in this material may not be suitable for all investors and a person receiving or reading this material should seek advice from a financial adviser regarding the suitability of such products, taking into account the specific investment objectives, financial situation or particular needs of that person, before making a commitment to invest in any of such products.

This publication should not be relied upon as authoritative without further being subject to the recipient's own independent verification and exercise of judgment. The fact that this publication has been made available constitutes neither a recommendation to enter into a particular transaction nor a representation that any product described in this material is suitable or appropriate for the recipient. Recipients should be aware that many of the products which may be described in this publication involve significant risks and may not be suitable for all investors, and that any decision to enter into transactions involving such products should not be made unless all such risks are understood and an independent determination has been made that such transactions would be appropriate. Any discussion of the risks contained herein with respect to any product should not be considered to be a disclosure of all risks or a complete discussion of such risks.

Nothing in this report shall be construed to be an offer or solicitation for the purchase or sale of a security. Any decision to purchase securities mentioned in this research should take into account existing public information, including any registered prospectus in respect of such security.

### Disclosure of Interest

**Analyst Disclosure:** Neither the analyst(s) preparing this report nor his associate has any financial interest in or serves as an officer of the listed corporation covered in this report.

**Firm's Disclosure:** Phillip Securities does not have any investment banking relationship with the listed corporation covered in this report nor any financial interest of 1% or more of the market capitalization in the listed corporation. In addition, no executive staff of Phillip Securities serves as an officer of the listed corporation.

### Availability

The information, tools and material presented herein are not directed, intended for distribution to or use by, any person or entity in any jurisdiction or country where such distribution, publication, availability or use would be contrary to the applicable law or regulation or which would subject Phillip Securities to any registration or licensing or other requirement, or penalty for contravention of such requirements within such jurisdiction.

Information contained herein is based on sources that Phillip Securities (Hong Kong) Limited ("PSHK") believed to be accurate. PSHK does not bear responsibility for any loss occasioned by reliance placed upon the contents hereof. PSHK (or its affiliates or employees) may have positions in relevant investment products. For details of different product's risks, please visit the Risk Disclosures Statement on <http://www.phillip.com.hk>.

© 2015 Phillip Securities (Hong Kong) Limited

**Contact Information (Regional Member Companies)**
**SINGAPORE**
**Phillip Securities Pte Ltd**

250 North Bridge Road, #06-00 Raffles City Tower,  
Singapore 179101

Tel : (65) 6533 6001 Fax: (65) 6535 3834

[www.phillip.com.sg](http://www.phillip.com.sg)

**INDONESIA**
**PT Phillip Securities Indonesia**

ANZ Tower Level 23B, Jl Jend Sudirman Kav 33A,  
Jakarta 10220, Indonesia

Tel (62) 21 5790 0800 Fax: (62) 21 5790 0809

[www.phillip.co.id](http://www.phillip.co.id)

**THAILAND**
**Phillip Securities (Thailand) Public Co. Ltd.**

15th Floor, Vorawat Building, 849 Silom Road,  
Silom, Bangrak, Bangkok 10500 Thailand

Tel (66) 2 2268 0999 Fax: (66) 2 2268 0921

[www.phillip.co.th](http://www.phillip.co.th)

**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

**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 (60) 3 2162 8841 Fax (60) 3 2166 5099

[www.poems.com.my](http://www.poems.com.my)

**CHINA**
**Phillip Financial Advisory (Shanghai) Co. Ltd.**

No 436 Heng Feng Road, Green Tech Tower Unit 604  
Shanghai 200 070

Tel (86) 21 5169 9400 Fax: (86) 21 6091 1155

[www.phillip.com.cn](http://www.phillip.com.cn)

**FRANCE**
**King & Shaxson Capital Ltd.**

3rd Floor, 35 Rue de la Bienfaisance  
75008 Paris France

Tel (33) 1 4563 3100 Fax : (33) 1 4563 6017

[www.kingandshaxson.com](http://www.kingandshaxson.com)

**AUSTRALIA**
**PhillipCapital Australia**

Level 12, 15 William Street,  
Melbourne, Victoria 3000, Australia

Tel: (61) 3 9618 8238 Fax: (61) 3 9200 2277

[www.phillipcapital.com.au](http://www.phillipcapital.com.au)

**HONG KONG**
**Phillip Securities (HK) Ltd**

11/F United Centre 95 Queensway Hong Kong

Tel (852) 2277 6600 Fax: (852) 2868 5307

[www.phillip.com.hk](http://www.phillip.com.hk)

**JAPAN**
**Phillip Securities Japan, Ltd**

4-2 Nihonbashi Kabutocho, Chuo-ku  
Tokyo 103-0026

Tel: (81) 3 3666 2101 Fax: (81) 3 3664 0141

[www.phillip.co.jp](http://www.phillip.co.jp)

**INDIA**
**PhillipCapital (India) Private Limited**

No. 1, 18th Floor, Urmi Estate, 95 Ganpatrao Kadam Marg,  
Lower Parel West, Mumbai 400013

Tel: (9122) 2300 2999 Fax: (9122) 6667 9955

[www.phillipcapital.in](http://www.phillipcapital.in)

**UNITED KINGDOM**
**King & Shaxson Ltd.**

6th Floor, Candlewick House, 120 Cannon Street  
London, EC4N 6AS

Tel (44) 20 7929 5300 Fax: (44) 20 7283 6835

[www.kingandshaxson.com](http://www.kingandshaxson.com)

**SRI LANKA**
**Asha Phillip Securities Limited**

Level 4, Millennium House, 46/58 Navam Mawatha,  
Colombo 2, Sri Lanka

Tel: (94) 11 2429 100 Fax: (94) 11 2429 199

[www.ashaphillip.net/home.htm](http://www.ashaphillip.net/home.htm)