

GAC (2238.HK)

Japanese-branded cars picked up gradually

Hong Kong | Automobile | Update Report

17 Jun 2015

Prosperous sales in May, up 22% yoy

GAC recently released its latest Production and Sales Express, which showed that the company sold 112,600 cars in May, up 22.1% yoy, better than the industry average (-0.4%).

Over the first five months in 2015, the company sold 461,100 vehicles, up 13.2% yoy.

Japanese-branded cars picked up gradually

Driven by new models, GAC Honda sales in May reached 51,262 units, up 52% yoy. For the first five months this year, the brand sold 196,000 cars, up 39% yoy. Benefiting from the booming compact SUV market in China, GAC Honda's new compact SUV model—VEZEL, which was launched at the end of last year, gained quite good sales, with monthly volume close to 10,000 units.

GAC Toyota sold 37,068 units in May, up 20% yoy. During the first five months of 2015, the sales reached 154,600 cars, up 5% yoy. Meanwhile, driven by the new models, i.e. LEVIN launched in 2014H2 and new HIGHLANDER released in March this year, offset the stagnation of CAMRY and YARIS L partially. GAC Toyota grew at a slower rate than GAC Honda mainly due to its higher base last year.

Sales of GAC MITSUBISHI MOTORS and GAC FIAT down 9.2% and 50% yoy to 6,006 and 2,896 units respectively. Restrained by their weak product lines and channel nets, the two JVs have always failed to meet the sales expectation. This, however, hasn't had much impact on the company's profit as a whole.

Jeep localization project is progressing

At the end of 2014, GAC, FIAT and Chrysler established a JV for the marketing. The Jeep brand plans to launch its first localized model Jeep CHEROKEE on Guangzhou Auto Show, which will be held in H2 2015, and take three models on to the market this year and next year, including RENEGADE and a brand-new compact SUV. By 2018, Jeep will have full lines of products from compact SUV to deluxe full-size SUV.

We believe that Jeep's good brand reputation and lower price following its localization in China help expand its customer base. Once the management is arranged, GAC-FIAT- Chrysler JV looks promising in the future.

Investment Thesis

For valuation, we revised EPS expectation of the Company to RMB0.60/0.93/1.14 of 2015/2016/2017. And we maintain the target price to 8.52, respectively 11/7/6x P/E for 2015/2016/2017. We reaffirm our "Accumulate" rating. (Closing price as at 15 June 2015)

Accumulate (Maintain)

CMP: HKD 7.47

(Closing price as at 15 June 2015)

TARGET: HKD 8.52(+14%)

COMPANY DATA

O/S SHARES (MN) :	6435
MARKET CAP (HKD MN) :	16446
52 - WK HI/LO (HKD):	9.87 / 6.58

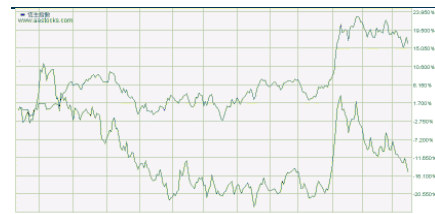
SHARE HOLDING PATTERN, %

Guangzhou Automobile Industry Group Co., Ltd	57.18
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PRICE PERFORMANCE, %

	1M	3M	1Y
GAC	-4.35	7.95	-15.02
HSI index	-0.9	-4.21	-30.3

PRICE VS. HSI



Source: Phillip Securities (HK) Research

KEY FINANCIALS

CNY mn	FY13	FY14	FY15E	FY16E
Net Sales	22,376	26,077	29,982	34,814
Net Profit	3,185	3,888	6,011	7,332
EPS, CNY	0.49	0.60	0.93	1.14
P/E, x	11.9	9.7	6.3	5.1
BVPS, CNY	5.50	6.07	6.56	7.13
P/BV, x	1.1	1.0	0.9	0.8
DPS (CNY)	0.16	0.20	0.30	0.37
Div. Yield (%)	2.7%	3.4%	5.1%	6.3%

Source: Company reports, Phillip Securities Est.

Research Analyst

ZhangJing

+86 21 63512937-104

zhangjing@phillip.com.cn

Prosperous sales in May, up 22% yoy

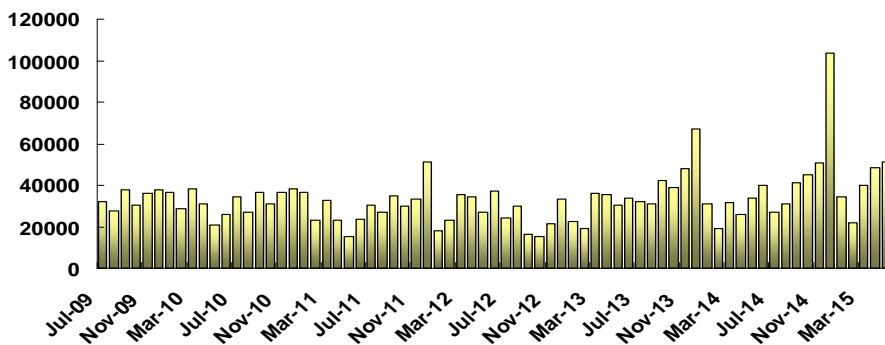
GAC recently released its latest Production and Sales Express, which showed that the company sold 112,600 cars in May, up 22.1% yoy, better than the industry average (-0.4%). Its total sales of passenger cars exceeded 110,000, up 25% yoy. Over the first five months in 2015, the company sold 461,100 vehicles, up 13.2% yoy.

Due to its diversifying models GAC Motor saw stable sales growth in May, its car sales reached 13,554 units, up 18% yoy. The JVs under the company perform with differentiation; Japanese-branded cars performing well while European branded-cars continuing to fall considerably

Japanese-branded cars picked up gradually

Driven by new models, GAC Honda sales in May reached 51,262 units, significantly up 52% yoy. For the first five months this year, the brand sold 196,000 cars, up 39% yoy. Benefiting from the booming compact SUV market in China, GAC Honda’s compact SUV—VEZEL, which was launched at the end of last year, gained quite good sales, with monthly volume close to 10,000 units. What’s more, the new generation of FIT and ODYSSEY, which came in to the market H2 2014, also sold well, having sales of nearly 10,000 and over 4,200 units respectively since this year.

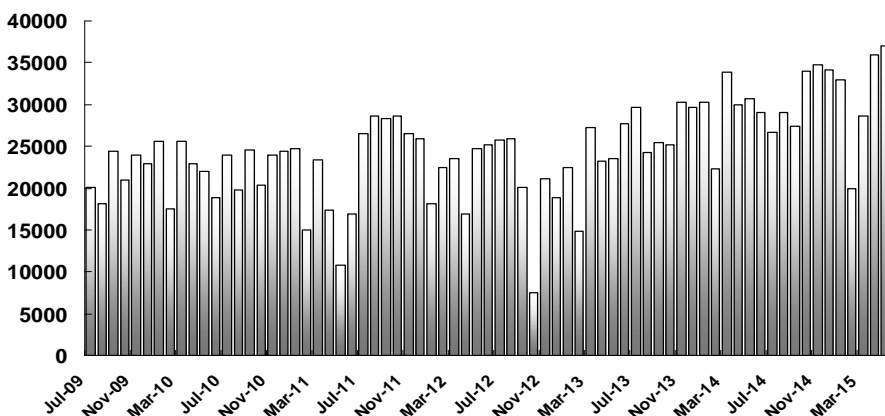
GAC Toyota monthly sales (units)



Source: Company, Phillip Securities Hong Kong Research

GAC Toyota sold 37,068 units in May, up 20% yoy. During the first five months of 2015, the sales reached 154,600 cars, up 5% yoy. Meanwhile, driven by the new models, i.e. LEVIN launched in H2 last year and new HIGHLANDER released in March this year, offset the stagnation of CAMRY and YARIS L partially. GAC Toyota grew at a slower rate than GAC Honda mainly due to its higher base last year.

GAC Toyota monthly sales (units)



Source: Company, Phillip Securities Hong Kong Research

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Jeep localization project is progressing

At the end of 2014, GAC and FIAT established a JV for the marketing, sales management, product planning and after-sales service of China-made and imported Jeep, FIAT and CHRYSLER cars. The Jeep brand plans to launch its first localized model Jeep CHEROKEE on Guangzhou Auto Show, which will be held in H2 2015, and take three models on to the market this year and next year, including RENEGADE and a brand-new compact SUV. By 2018, Jeep will have full lines of products from compact SUV to deluxe full-size SUV. We believe that Jeep's good brand reputation and lower price following its localization in China help expand its customer base. Once the management is arranged, GAC-FIAT JV looks promising in the future.

Investment Thesis

As analyzed above, we revised EPS expectation of the Company to RMB0.60/0.93/1.14 of 2015/2016/2017. And we maintain the target price to 8.52, respectively 11/7/6x P/E for 2015/2016/2017. We reaffirm our "Accumulate" rating.

Peer Comparison

Ticker	Name	Mark	Best		Best		BEst	ROA LF ROE		
		Cap	Best	P/B	Best	P/E	EV/BEst	(%)	(%)	(%)
		HKD-mil	P/B	(Y+1)	P/E	(Y+1)	EBITDA	P/B	(%)	(%)
2238 HK Equity	GAC	94219	1.0	0.9	10.2	8.3	80.9	1.1	5.3	9.3
1211 HK Equity	BYD	196082	3.4	3.3	50.5	43.4	23.6	4.2	0.5	1.8
489 HK Equity	DONGFENG	96845	0.9	0.8	6.1	5.6	24.9	1.1	9.8	18.8
2333 HK Equity	GWM	167986	2.7	2.2	9.7	8.1	8.7	3.4	14.1	26.2
1114 HK Equity	BRILLIANCE	55183	2.0	1.6	7.9	6.7	N/A	2.6	25.6	36.1
175 HK Equity	GEELY	33887	1.3	1.2	10.6	8.7	5.4	1.6	4.0	8.6
200550 CH Equity	CHANG AN	125774	2.1	1.6	6.9	5.7	19.6	2.7	12.1	33.1
F US Equity	FORD	470914	2.1	1.8	9.6	8.1	4.8	2.4	1.5	12.1
GM US Equity	GM	442949	1.5	1.3	7.9	6.9	3.0	1.6	2.6	9.6
RNO FP Equity	RENAULT	244713	1.0	0.9	10.1	8.2	5.7	1.2	2.4	8.0
UG FP Equity	PEUGEOT	128196	1.5	1.4	17.3	11.7	3.5	1.6	-1.2	-8.8
VOW GR Equity	VW	890950	1.1	1.0	8.9	7.9	7.3	1.1	3.2	13.0
BMW GR Equity	BMW	565088	1.6	1.4	10.5	9.8	7.9	1.8	3.8	16.1
DDAIF US Equity	DAIMLER	786098	1.8	1.6	11.1	9.9	3.9	2.0	4.1	17.9
TTMT IN Equity	TATA	162306	1.5	1.2	7.2	5.9	3.4	2.5	6.1	23.0
7203 JP Equity	TOYOTA	1795942	1.4	1.3	10.7	9.8	10.3	1.6	4.9	13.9
7267 JP Equity	HONDA	465771	1.1	1.0	11.8	10.2	8.2	1.1	3.1	8.3
7201 JP Equity	NISSAN	356856	1.0	0.9	10.1	9.1	3.9	1.1	2.9	10.0
7269 JP Equity	SUZUKI	150234	1.5	1.4	19.8	17.3	5.5	1.6	3.2	6.9
7261 JP Equity	MAZDA	95930	1.6	1.3	9.7	8.6	5.5	1.8	6.7	20.8
7211 JP Equity	MITSUBISHI	67641	1.5	1.3	9.7	9.5	4.1	1.6	7.6	19.7
005380 KS Equity	HYUNDAI	208405	0.6	0.5	4.8	4.5	6.7	0.5	5.1	10.5
000270 KS Equity	KIA	128873	0.7	0.7	5.9	5.5	4.3	0.8	7.6	14.0

Source: Company, Phillip Securities Hong Kong Research

Financials

FYE DEC	FY11	FY12	FY13	FY14	FY15F	FY16F	FY17F
Valuation Ratios							
P/E (X), adj.	8.7	34.1	14.2	11.9	9.7	6.3	5.1
P/B (X)	1.3	1.2	1.1	1.1	1.0	0.9	0.8
Dividend payout Yield (%)	28.8%	51.1%	38.8%	32.3%	33.1%	32.1%	32.5%
Dividend Yield (%)	3.3%	1.5%	2.7%	2.7%	3.4%	5.1%	6.3%
Per share data (RMB)							
EPS, reported	0.69	0.18	0.41	0.49	0.60	0.93	1.14
EPS, adj.	0.69	0.18	0.41	0.49	0.60	0.93	1.14
DPS	0.20	0.09	0.16	0.16	0.20	0.30	0.37
BVPS	4.75	4.84	5.18	5.50	6.07	6.56	7.13
Growth & Margins (%)							
Growth							
Revenue	25.6%	18.0%	45.2%	18.9%	16.5%	15.0%	16.1%
EBIT	-27.5%	-70.9%	134.6%	20.0%	27.8%	51.0%	22.0%
Net Income, adj.	-0.5%	-73.5%	133.9%	20.1%	22.1%	54.6%	22.0%
Margins							
Gross margin	3.9%	5.3%	10.6%	11.4%	12.3%	12.5%	12.6%
EBIT margin	37.3%	9.2%	14.9%	15.0%	16.5%	21.6%	22.7%
Net Profit Margin	38.9%	8.7%	14.1%	14.2%	14.9%	20.0%	21.1%
Key Ratios							
ROE (%)	15.6%	3.8%	8.2%	9.3%	10.4%	14.8%	16.6%
ROA (%)	10.3%	2.4%	4.9%	5.3%	5.9%	8.1%	9.0%
Income Statement (RMB mn)							
Revenue	10984	12964	18824	22375.9	26077	29982	34814
Gross profit	424	690	1994	2547	3207	3748	4387
EBIT	4098	1193	2798	3359	4294	6486	7914
Profit before tax	4057	1000	2629	3053	3841	6013	7413
Tax	110	65	-101	-126	-168	-206	-255
Profit for the period	4167	1065	2529	2926	3673	5807	7158
Minority interests	-105	-69	-124	-259	-215	-204	-174
Total capital share	6148	6435	6435	6435	6435	6435	6435
Net profit	4272	1134	2653	3185	3888	6011	7332

Source: PSR

(Financial figures as at 15 Jun 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

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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

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

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

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

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

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

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

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

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

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

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

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