

BAIC (1958.HK)

Benefit from Benz's new product cycle

Hong Kong | Automobile | Initiation Report

17 Jul 2015

- BAIC develops her own brands of economical vehicles (namely "Senova" series, "Beijing" series and "Wevon" series) and also possesses the luxury vehicle brand of "Beijing Benz" as well as the medium-high end brand of "Beijing Hyundai". In 2009, Beijing Automotive Industry Group acquired Saab Technology and applied them on her own brand of "Senova" series passenger cars.

- Last year, the Company's annual income demonstrated a growth of 3.4 times, to RMB56.37 billion. Such surge of income is mainly due to the acquisition of Beijing Benz and the rapid growth of sales of newly launched vehicles. Gross profit margin also increased from 3.2% in 2013 to 15.9% in 2014. Net profit attributable to parent company recorded RMB4.511 billion, up 66% yoy, with corresponding earning per share as RMB0.7 (RMB0.48 recorded in 2013). Boosted by the hot sales of Beijing Benz, its Q115 net profit surged to RMB1.63 billion, up 104% yoy, and its gross margin climb to 22.3%.

- Beijing Hyundai is the largest contributor of profit. Beijing Hyundai's two new factories in Cangzhou and Chongqing would commence operation next year, with preliminary planned annual production capacity as 300,000 vehicles each, and expected accomplishment by 2016 year-end and 2017 year-end respectively. Beijing Hyundai's total production capacity would possibly increase to 1,650,000 vehicles in the future. This can provide an effective solution to the current problem of production bottleneck.

- Benz has entered into a new product cycle since 2014H2, with the new C Class Benz marked a kick-off. Benz launched the new SUV model of GLA in April 2015, and will further introduce the brand new GLK in 2015Q4. Moreover, the new E Class sedans will be launched in 2016. Benz set her target to regain the top rank in the global luxury vehicle market by 2020 and Beijing Benz is benefited from her long-term expansion business strategy. We expect Beijing Benz would start a period of rapid growth from 2015 to 2017.

- The self-owned brands of BAIC Motor would launch Senova X65, Senova D80, Senova X55, Senova C33 and Senova CC etc in 2015. The proportion of SUV will be amounted to 20% approximately. SUV will be the major growth momentum of the Company's self-owned brands, and this would help to lower the loss incurred from BAIC Motor's self-owned brands.

Investment Thesis

We expect the 2015/2016 revenue of the Company to be RMB80.2 billion and RMB101.2 billion respectively; and the forecasted EPS to be RMB0.96 and RMB1.14 respectively, with benchmarking companies including Brilliance Auto, BYD Auto, Great Wall Motor and Geely Automobile. We expect the valuation of the Company's share to be 10.8x of 2015 expected P/E and 9.1x of 2016 expected P/E respectively, and grant the rating of "BUY" for the first time, with the target price of HKD13.23. (Closing price as at 15 July 2015)

BUY (Initiation)

CMP HKD 7.82

(Closing price as at 15 July 2015)

TARGET HKD 13.23 (+69%)

COMPANY DATA

O/S SHARES (MN):	6419
MARKET CAP (HKD MN):	16427
52 - WK HI/LO (HKD):	11.5 / 7.14

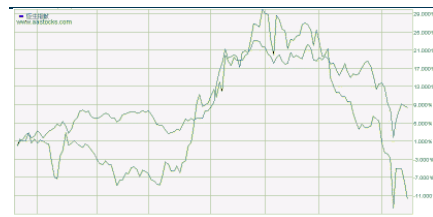
SHARE HOLDING PATTERN, %

Beijing Automotive Group Co., Ltd	45.6
Beijing Shougang Co., Ltd	13.7
Daimler AG	10.08

PRICE PERFORMANCE, %

	1M	3M	1Y
BAIC	-16.29	-22.02	NA
HSI index	-9.91	-12.97	NA

PRICE VS. HSI



Source: Phillip Securities (HK) Research

KEY FINANCIALS

CNY mn	FY13	FY14	FY15E	FY16E
Net Sales	12,782	56,370	80,156	101,248
Net Profit	2,714	4,511	6,175	7,324
EPS, CNY	0.48	0.70	0.96	1.14
P/E, x	12.8	8.8	6.4	5.4
BVPS, CNY	4.22	5.20	5.76	6.40
P/BV, x	1.5	1.2	1.1	1.0
DPS (CNY)	0.32	0.30	0.40	0.50
Div. Yield (%)	5.2%	4.9%	6.5%	8.1%

Source: Company reports, Phillip Securities Est.

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Company Profile

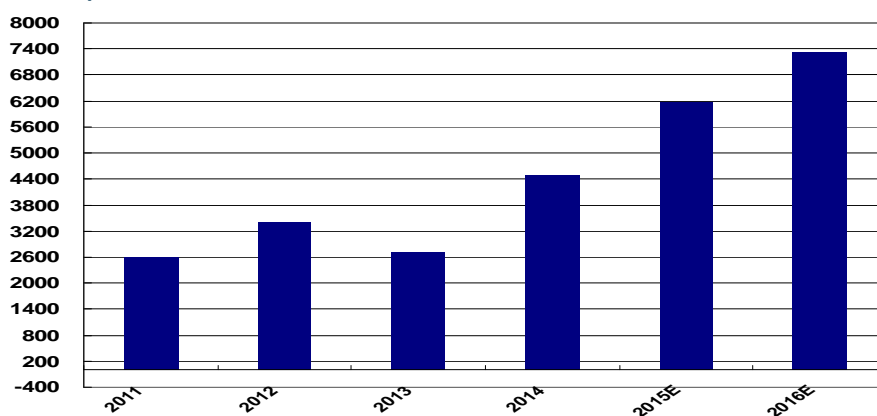
BAIC Motor (1958.HK) is the main platform for the business of passenger car manufacturing of Beijing Automotive Industry Group Company Limited, which develops her own brands of economical vehicles (namely “Senova” series, “Beijing” series and “Wevon” series) and also possesses the luxury vehicle brand of “Beijing Benz” (which joined BAIC Motor as a subsidiary on 17 November 2013) as well as the medium-high end brand of “Beijing Hyundai”. In 2009, Beijing Automotive Industry Group acquired Saab Technology, including the structural design, engine transmission gear box and production mode of three types of Saab vehicles, which was applied on the production of comparatively high-end own brand of “Senova” series passenger cars.

The Company has diversified production lines, covering mid- to large-size sedan, mid-size sedan, compact sedan, small-size sedan, SUV, MPV and CUV products. The holding shareholder of the Company, Beijing Automotive Industry Group, ranks the fifth largest automotive group in China and holds approximately 45% of the Company’s equity. Daimler AG and Shougang Limited also hold 10% and 13.54% of the Company’s equity respectively.

Acquisition of Beijing Benz and speedy growth of self-owned brands are the main causes of surge of business

Last year, the Company’s annual income demonstrated a growth of 3.4 times, to RMB56.37 billion. Such surge of income is mainly due to the acquisition of Beijing Benz and the rapid growth of sales of newly launched vehicles. Boosted by the acquisition of Beijing Benz, the Company’s gross profit margin also increased from 3.2% in 2013 to 15.9% in 2014. Net profit attributable to parent company recorded RMB4.511 billion, up 66% yoy, with corresponding earning per share as RMB0.7 (RMB0.48 recorded in 2013).

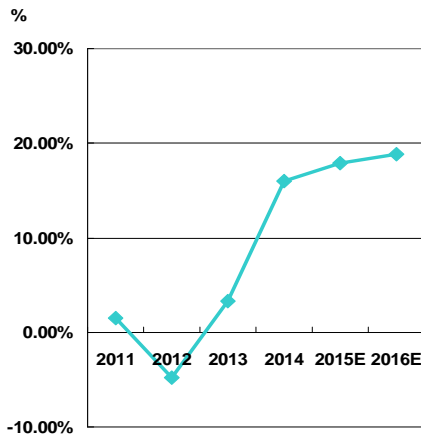
BAIC’s net profit trend



Source: Company, Phillip Securities Hong Kong Research

Even facing the adverse situation of growth slowdown of the automotive market in 2014, the Company’s self-owned brands, Beijing Benz and Beijing Hyundai recorded a total sale of 1,575, 200 vehicles, up 17% yoy. Among this total sale volume, Beijing Hyundai contributed 71.1%, while Beijing Benz and Beijing series vehicles contributed 19.7% and 9.2% respectively. With respect to the pace of growth, Beijing series vehicles and Beijing Benz recorded growth rates of 2014 sale volume of 53.1% and 25.4% respectively, far higher than the average growth rate of the Chinese automotive industry. Meanwhile, Beijing Hyundai recorded a growth rate of sale volume of 8.7%.

BAIC's gross margin trend



Source: Company, Phillip Securities Hong Kong Research

Beijing Hyundai is the largest contributor of profit

Beijing Hyundai offers a full series of SUV products namely Santafe, ix35, Tucson and ix25, targeting at various markets of high-end, medium-end and low end; and thus achieving a full coverage of SUV products priced between RMB120,000 to RMB210,000. In the market of sedans, Beijing Hyundai would launch new models including Sonata 9, brand new ix35 and Mistra1.6T in 2015. Beijing Hyundai's two new factories in Cangzhou and Chongqing would commence operation next year, with preliminary planned annual production capacity as 300,000 vehicles each, and expected accomplishment by 2016 year-end and 2017 year-end respectively. Beijing Hyundai's total production capacity would possibly increase to 1,650,000 vehicles in the future. This can provide an effective solution to the current problem of production bottleneck.

Beijing Benz starts new product cycle

Benz has entered into a new product cycle since 2014H2, with the new C Class Benz marked a kick-off. Benz launched the new SUV model of GLA in April 2015, and will further introduce the brand new GLK in 2015Q4. Moreover, the new E Class sedans will be launched in 2016. Benz set her target to regain the top rank in the global luxury vehicle market by 2020 and Beijing Benz is benefitted from her long-term expansion business strategy. We expect Beijing Benz would start a period of rapid growth from 2015 to 2017. Contribution of profit from Beijing Benz would gradually increase in the future, with sale volume and profitability rising continuously.

Beijing Benz starts new product cycle



長軸距版E級



長軸距版E級
(運動型)



C級



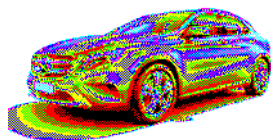
GLK



長軸距版新C級



長軸距版新C級
(運動型)


GLA

Source: Company, Phillip Securities Hong Kong Research

Loss from self-owned brands may decrease

The self-owned brands of BAIC Motor would launch Senova X65, Senova D80, Senova X55, Senova C33 and Senova CC etc in 2015. The proportion of SUV will be amounted to 20% approximately. SUV will be the major growth momentum of the Company's self-owned brands, and this would help to lower the loss incurred from BAIC Motor's self-owned brands. Furthermore, the Company's passenger cars using new energy under self-owned brands recorded the sale volume of 5892 vehicles in the first half of the year. Such leading sales figure ranked the third in the Chinese market. The current end-user sales demonstrated a situation with supply shortfall and high demand. The burst of demand for vehicles using new energy is expected to be indicated in this year's business of the Company.

Investment Thesis

We expect the 2015/2016 revenue of the Company to be RMB80.2 billion and RMB101.2 billion respectively; and the forecasted EPS to be RMB0.96 and RMB1.14 respectively, with benchmarking companies including Brilliance Auto, BYD Auto, Great Wall Motor and Geely Automobile. We expect the valuation of the Company's share to be 10.8x of 2015 expected P/E and 9.1x of 2016 expected P/E respectively, and grant the rating of "BUY" for the first time, with the target price of HKD13.23.

Peer Comparison

Ticker	Name	Mark	Best		Best		BEst	ROA LF ROE			
		Cap HKD-mil	Best P/B	P/B (Y+1)	Best P/E	P/E (Y+1)	EV/BEst	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	FY12	FY13	FY14	FY15F	FY16F
Valuation Ratios					
P/E (X), adj.	9.2	12.8	8.8	6.4	5.4
P/B (X)	2.0	1.5	1.2	1.1	1.0
Dividend Yield (%)	4.8%	5.2%	4.9%	6.5%	8.1%
Dividend payout ratio (%)	44.1%	66.7%	42.9%	41.6%	43.8%
Per share data (RMB)					
EPS, reported	0.68	0.48	0.70	0.96	1.14
EPS, adj.	0.68	0.48	0.70	0.96	1.14
DPS	0.30	0.32	0.30	0.40	0.50
BVPS	3.16	4.22	5.20	5.76	6.40
Growth & Margins (%)					
Growth					
Revenue	83.7%	263.1%	341.0%	42.2%	26.3%
EBIT	37.6%	-10.2%	104.3%	24.5%	20.2%
Net Income, adj.	31.5%	-20.6%	66.2%	36.9%	18.6%
Margins					
Gross margin	-4.8%	3.2%	15.9%	17.9%	18.8%
EBIT margin	112.0%	27.7%	12.8%	11.2%	10.7%
Net Profit Margin	97.1%	21.2%	8.0%	7.7%	7.2%
Key Ratios					
ROE (%)	0.38%	2.58%	1.8%	7.1%	8.7%
Income Statement (RMB mn)					
Revenue	3,520	12,782	56,370	80,156	101,248
Cost of sales	3,688	12,367	47,387	65,776	82,213
Gross profit	-168	415	8,983	14,380	19,035
Other income and gains	1,856	620	1,540	1,753	2,089
Operating expenditure	1,537	3,519	9,101	12,665	15,947
Financial costs	158	474	533	(281)	(28)
Profit before tax	3,785	3,065	6,698	9,280	10,843
Tax	226	114	857	1,364	1,572
Profit for the period	3,478	2,951	5,841	7,916	9,271
Minority interests	61	237	1,330	1,742	1,947
Net profit	3,417	2,714	4,511	6,175	7,324

Source: PSR

(Financial figures as at 15 Jul 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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