

Yutong (600066.CH)

An industry leader with both stability and growth potential

China | Automobile | Company Initiation

29 December 2015

- Yutong deserves to be the pioneer in China's bus industry. The company has strong R&D and manufacturing capabilities. It is the first auto company in China to attain the qualification of "exemption from inspection for exports". It has a comprehensive product range, with 203 bus product lines. With body length ranging from 5m to 25m, its product range covers highway passenger transit, tourist coach, public transport, business vehicle, coach and specialized bus.

- The company completed the management buyout. The direction and value of the management and controlling shareholders were finally aligned. Efficient and aggressive corporate governance, supreme product quality resulting from continuous investment in R&D have strengthened the company's competitive advantage. Moreover, amid the favourable growth environment of the industry fueled by the rapid economic growth since the opening and reform of China, both the revenue and net profit of the main business recorded a positive growth for the past 18 consecutive years, with a CAGR of 27% and 31% respectively.

- We are optimistic about the medium to long term development of the domestic bus market. The reasons are as follows: firstly the policy of the Chinese government to "give priority to public transport development", secondly, the short-distanced travel will have a positive impact on the sales of buses. We forecast that the sales volume growth rate of domestic large/medium-sized buses can be maintained at 15% or above for the next several years. Being the industry leader, Yutong will fully benefit from it.

- For the first three quarters, revenue from the main business grew by 25% yoy to RMB18.93 billion. Net profit attributable to parent company rose by 35.3% yoy to RMB1.865 billion. Sales of the new energy models grew explosively. Its rising contribution was the main reason for faster growth in earnings than volume.

- After gaining experience in a long period, the company pioneers in the technology of new energy buses. At present, the company's new energy bus models include 10-18m plug-in hybrid buses and 6-12m pure electric buses. In 2014, sales volume of the company's new energy buses was 7,405 units. We expect sales volume to reach 18,000 units in 2015, representing a remarkable growth of 140% yoy. We expect its pioneering technological advantage and economies of scale will ensure that the new energy products of company will get a upper hand in the new round of government subsidies to promote new energy vehicles.

Investment Thesis

We forecast that the company's EPS in 2015/2016 will be RMB1.45 and RMB1.73. Considering the leading position of the company in the industry and its continued technological advancement in new energy vehicles to drive down costs and broaden its market, our target price is set at RMB27. It is equivalent to a prospective 2015/2016 PE of 19x and 16x respectively. We recommend a "BUY" rating in our initial coverage. (Closing price as at 25 Dec 2015)

Buy (Initiation)

CMP: CNY 22.49

(Closing price as at 25 Dec 2015)

TARGET: CNY 27.00 (+20%)

COMPANY DATA

O/S SHARES (MN) :	2214
MARKET CAP (CNY MN) :	49791
52 - WK HI/LO (CNY):	33.43/ 15.15

SHARE HOLDING PATTERN, %

Yutong Group	37.15
--------------	-------

PRICE VS. SHCOMP



Source: Phillip Securities (HK) Research

KEY FINANCIALS

CNY mn	FY13	FY14	FY15E	FY16E
Net Sales	22198	25728	31227	33948
Net Profit	2263	2612	3215	3830
EPS, CNY	1.78	1.77	1.45	1.73
P/E, x	22.0	19.1	15.5	13.0
BVPS, CNY	4.30	4.91	5.49	6.55
P/BV, x	5.2	4.6	4.1	3.4
DPS (CNY)	0.50	1.00	0.80	0.92
Div. Yield (%)	2.2%	4.4%	3.6%	4.1%

Source: Company reports, Phillip Securities Est.

Research Analyst

ZhangJing

(+ 86 51699400-103)

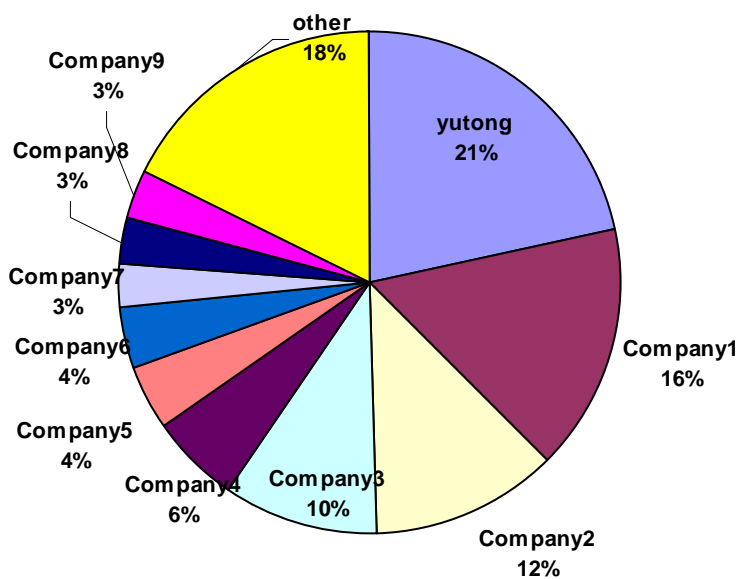
zhangjing@phillip.com.cn

Company Profile- Pioneer of domestic bus

The company mainly engages in the research and development (R&D), manufacturing and sale of buses. It was established in 1993 and was previously the Zhengzhou bus factory. The company was listed in the Shanghai Stock Exchange in 1997 and its current market capitalization is around RMB48 billion.

The company deserves to be the pioneer in China’s bus industry. Its sales volume ranked the first in the industry for 12 consecutive years. Based on its sales volume in 2015H1, it took 22% of the domestic bus market. Its market share in the large/medium-sized buses was 33%. Its market share in the school bus sub-segment was 35%. It ranked the first in all these sub-segments. Its top 5 customers contributed around 15% to its sale revenue.

Yutong ranks first in China bus market



Source: Company, Phillip Securities Hong Kong Research

It is obvious that the large/medium-sized bus market in China is oligopolistic in nature. The combined market share of Yutong Bus and Jinlong Motors (including Xiamen Golden Dragon Holdings, Xiamen Golden Dragon and Suzhou Jinlong) reached 60%. In this monopolistic market, these two companies have a significant competitive advantage.

Comparative advantage promotes steady growth

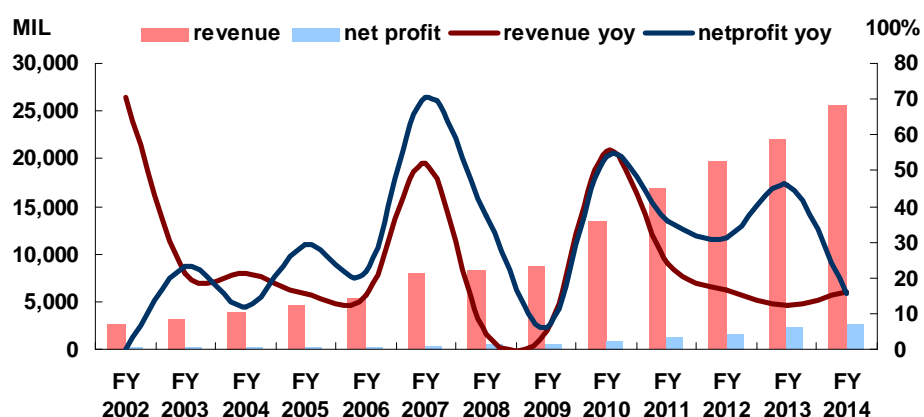
The company has strong R&D and manufacturing capabilities. It is the first auto company in China to attain the qualification of “exemption from inspection for exports”. It has a comprehensive product range, with 203 bus product lines. With body length ranging from 5m to 25m, its product range covers highway passenger transit, tourist coach, public transport, business vehicle, coach and specialized bus.

The company is located in Zhengzhou City, Henan Province. Its main production base covers 1,700 acres of land, with internationally advanced production lines of chassis frame electrophoresis, body electrophoresis and robotic spraying. The daily production capacity is 325 units or above and is the world’s largest and most technically advanced single production plant for large/medium-sized buses. In 2012, the newly completed new energy bus plant occupies more than 2,000 acres of land, with an annual production capacity of 30,000 units. It is the most advanced new energy bus production plant in China and is the largest in the world.

In 2004, the company completed the management buyout. The de facto governing body shifted from Zhengzhou Financial Bureau to the 21 senior management executives, including the managing director Mr. Tang Xuxiang. The direction and value of the management and controlling shareholders were finally aligned.

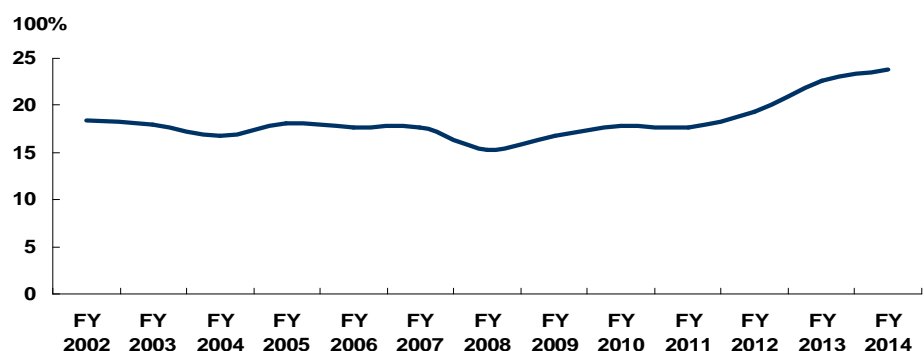
Efficient and aggressive corporate governance, supreme product quality resulting from continuous investment in R&D have strengthened the company's competitive advantage. Moreover, amid the favourable growth environment of the industry fueled by the rapid economic growth since of the opening and reform of China, both the revenue and net profit of the main business recorded a positive growth for the past 18 consecutive years, with a CAGR of 27% and 31% respectively. Besides, it has exercised good cost control. Its economies of scale and bargaining power in procurement ensured its gross margin to remain stable.

Yutong's results review



Source: Company, Phillip Securities Hong Kong Research

Yutong's gross margin

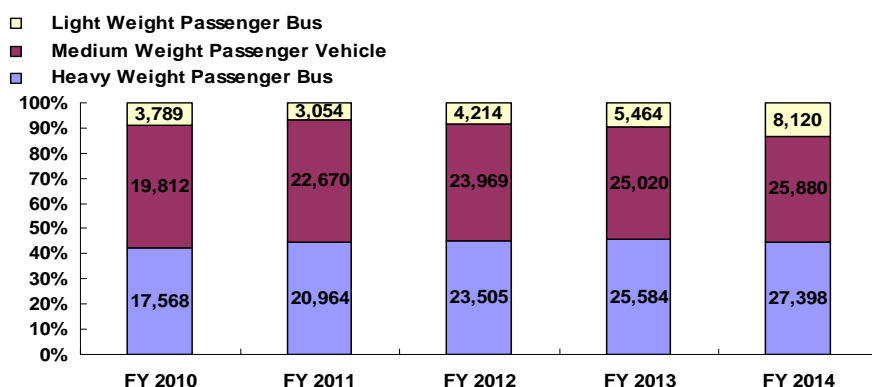


Source: Company, Phillip Securities Hong Kong Research

Optimistic about the growth potential of the domestic bus market

The company mainly sells medium to large-sized buses which accounted for over 80% of its total sales. In recent years, the rising demand for school buses has increased the contribution from light buses from 7% in 2011 to 15% in 2015H1. For the first 11 months of 2015, Yutong sold 56,696 units of buses, representing an increase of 11.3% yoy. Of which, the sales volume of large, medium and small-sized buses was 22,245; 23,446 and 11,005 respectively, representing a growth of 2.9%, 5.1% and 56.8% yoy and accounting for 39.2%, 41.4% and 19.4% of total sales volume.

Sales breakdown by Segments



Source: Company, Phillip Securities Hong Kong Research

For the first three quarters, revenue from the main business grew by 25% yoy to RMB18.93 billion. Net profit attributable to parent company rose by 35.3% yoy to RMB1.865 billion. Sales of the new energy models grew explosively. Its rising contribution was the main reason for faster growth in earnings than volume.

We are optimistic about the medium to long term development of the domestic bus market. The reasons are as follows: firstly the policy of the Chinese government to “give priority to public transport development” provides ensures the demand for city buses. According to the plan of the Chinese government, the urbanization rate will reach 60% by 2020 and to 70% by 2030. The continued rise in the urbanization rates ensures a sustainable demand for buses. Secondly, the short consecutive holiday arrangement and the continued demand growth for short-distanced travel will have a positive impact on the sales of tourist coaches. We forecast that the sales volume growth rate of domestic large/medium-sized buses can be maintained at 15% or above for the next several years. Being the industry leader, Yutong will fully benefit from it.

New energy bus business is expected to enter into an explosive growth phase

After gaining experience in a long period, the company pioneers in the technology of new energy buses. By the end of 2014, the company has applied for 273 patents for new energy buses, including 86 invention patents. In recent years, the company has invested heavily in the new energy arena. The total investment on the company’s new energy bus production base has been close to RMB4 billion. The company also invested RMB330 million to build a technology R&D centre and RMB1 billion to set up a new energy industry development fund, which will be used to research and produce the upstream auto parts for new energy vehicles and to come up with sales and operation solutions in the downstream.

At present, the company’s new energy bus models include 10-18m plug-in hybrid buses and 6-12m pure electric buses. In 2014, sales volume of the company’s new energy buses was 7,405 units. We expect sales volume to reach 18,000 units in 2015, representing a remarkable growth of 140% yoy. We expect its pioneering technological advantage and economies of scale will ensure that the new energy products of company will get a upper hand in the new round of government subsidies to promote new energy vehicles.

Valuation

We forecast that the company’s EPS in 2015/2016 will be RMB1.45 and RMB1.73. Considering the leading position of the company in the industry and its continued

technological advancement in new energy vehicles to drive down costs and broaden its market, our target price is set at RMB27. It is equivalent to a prospective 2015/2016 PE of 19x and 16x respectively. We recommend a “BUY” rating in our initial coverage.

Peer Comparison

Ticker	Name	BEst P/B	ROA LF	OPM LF	GPM	PM LF
CNY (11 securities)						
Average	Average	3.1	3.7	2.0	15.4	2.3
600066 CH Equity	ZHENGZHOU YUTONG BUS CO	4.0	15.3	13.2	24.1	10.8
000338 CH Equity	WEICHAI POWER CO LTD-A	1.2	1.8	4.7	22.9	2.7
000550 CH Equity	JIANGLING MOTORS CORP LTD	2.2	11.8	7.7	23.3	9.5
002434 CH Equity	ZHEJIANG WANLIYANG TRANSMI-A		5.3	13.2	29.3	11.6
600686 CH Equity	XIAMEN KING LONG MOTOR GI	2.7	1.9	6.2	16.3	1.7
000951 CH Equity	CNHTC JINAN TRUCK CO LTD-A	1.7	1.5	2.3	8.2	0.5
000957 CH Equity	ZHONGTONG BUS & HOLDING	4.4	3.5	11.5	19.4	7.4
000903 CH Equity	KUNMING YUNNEI POWER CO	2.0	3.2	8.2	21.2	7.2
000868 CH Equity	ANHUI ANKAJ AUTOMOBILE-A		0.7	-26.0	-11.9	0.2
600609 CH Equity	SHENYANG JINBEI AUTOMOTIVE-A		-0.3	2.5	12.9	-0.6
000617 CH Equity	JINAN DIESEL ENGINE CO-A	6.9	-3.9	-21.6	3.5	-25.6
EUR (2 securities)						
Average	Average	2.6	2.0	5.2	25.2	2.8
MAN GR Equity	MAN SE	2.6	0.8	1.8	20.6	1.7
KGX GR Equity	KION GROUP AG	2.5	3.2	8.7	29.8	4.0
HKD (4 securities)						
Average	Average	0.5	0.6	5.0	23.4	1.3
1157 HK Equity	ZOOMLION HEAVY INDUSTRY	0.5	-1.0	5.0	28.8	-4.8
3808 HK Equity	SINOTRUK HONG KONG LTD	0.4	0.7	2.8	18.1	1.7
200570 CH Equity	CHANGCHAI CO LTD-B		2.7	6.1	14.9	4.4
631 HK Equity	SANY HEAVY EQUIPMENT INTL	0.7	0.1	6.1	32.1	4.0
JPY (3 securities)						
Average	Average	1.6	5.2	8.7	25.4	5.0
6326 JP Equity	KUBOTA CORP	2.0	6.4	13.8	31.9	8.6
7205 JP Equity	HINO MOTORS LTD	1.7	7.4	6.4	18.1	4.3
6305 JP Equity	HITACHI CONSTRUCTION MACH	0.9	1.8	5.9	26.1	2.2
KRW (2 securities)						
Average	Average	0.7	-10.2	-22.4	-11.8	-26.8
010620 KS Equity	HYUNDAI MIPO DOCKYARD	0.6	0.6	1.9	7.4	0.8
042660 KS Equity	DAEWOO SHIPBUILDING & MA	0.7	-21.0	-46.7	-31.1	-54.4
SEK (1 security)						
Average	Average	1.9	2.6	6.5	23.6	4.2
VOLVB SS Equity	VOLVO AB-B SHS	1.9	2.6	6.5	23.6	4.2
USD (5 securities)						
Average	Average	3.9	6.5	9.7	29.1	5.4
CAT US Equity	CATERPILLAR INC	2.7	3.6	6.5	26.1	3.4
CMI US Equity	CUMMINS INC	2.0	10.7	12.1	26.1	8.2
WBC US Equity	WABCO HOLDINGS INC	6.7	9.6	4.6	25.6	6.0
ALSN US Equity	ALLISON TRANSMISSION HOLL	4.1	4.7	22.7	47.9	9.4
CYD US Equity	CHINA YUCHAI INTL LTD		3.8	2.5	19.5	0.0

Source: Bloomberg, Phillip Securities Hong Kong Research

Financials

FYE DEC	FY11	FY12	FY13	FY14	FY15F	FY16F
Valuation Ratios						
P/E (X), adj.	26.7	26.3	22.0	19.1	15.5	13.0
P/B (X)	9.5	5.6	5.2	4.6	4.1	3.4
Dividend payout ratio(%)	35.6%	81.8%	48.9%	84.7%	55.1%	53.2%
Dividend Yield (%)	1.3%	3.1%	2.2%	4.4%	3.6%	4.1%
Per share data (RMB)						
EPS, (Basic)	2.06	2.31	1.78	1.77	1.45	1.73
EPS, (Diluted)	0.84	0.86	1.02	1.18	1.45	1.73
DPS	0.30	0.70	0.50	1.00	0.80	0.92
BVPS	2.38	4.04	4.30	4.91	5.49	6.55
Growth & Margins (%)						
Growth						
Revenue	24.4%	16.7%	12.3%	15.9%	21.4%	8.7%
EBIT	28.3%	31.0%	31.9%	31.6%	9.8%	14.8%
Net Income, adj.	36.0%	31.1%	46.1%	15.4%	23.1%	19.1%
Margins						
Gross margin	18.2%	20.0%	23.1%	24.3%	25.2%	25.8%
EBIT margin	8.1%	9.1%	10.7%	12.1%	11.0%	11.6%
Net Profit Margin	7.0%	7.8%	10.2%	10.2%	10.3%	11.3%
Key Ratios						
ROE	40.5%	26.7%	24.5%	25.6%	27.9%	28.7%
Income Statement (RMB mn)						
Revenue	16932	19764	22198	25728	31227	33948
Gross profit	3082	3946	5122	6247	7872	8759
EBIT	1373	1799	2373	3122	3429	3935
Profit before tax	1354	1765	2619	3051	3799	4508
Tax	171	215	328	398	494	563
Profit for the period	1183	1550	2291	2652	3305	3944
Minority interests	1	0	28	40	90	114
Total capital share	574	670	1274	1477	2214	2214
Net profit	1182	1550	2263	2612	3215	3830

Source: PSR

(Financial figures as at 25 December 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

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