

# CAR Inc (699.HK)

## Long-term investors are encouraged to accumulate gradually

Hong Kong | Public Transportation | Update Report

1 April 2016

### More than Twice Profits Earned First Year after Being Listed

According to the annual results (up to the end of last December) unveiled by Car Inc., the company's turnover has increased by 42% from last year to RMB5.003 billion, including RMB4.399 from car rental revenues, which has jumped by 53% on year-on-year basis. The company's net profit has surged by 221.34% to RMB1.401 billion; earning per share was RMB0.591, without final dividends.

The unexpected good results this year could be owed to the RMB797 million of fair value profit earned from the preferred stock of UCAR Technology Inc. and the RMB250 million of unrealized currency losses of part of the debts in USD. If the above factors are not considered, the net profit would have increased by 68% to RMB944 million, which was lower than expected.

### Fleet Size Up by 40%

After great efforts, the total number of the company's vehicles has increased by 43.5% from 63, 522 in 2014 to the current 91, 179; the number of vehicles in operation has jumped by 41.5% from 58, 773 to the current 83, 168. Benefited from the growing number of vehicles, revenues from short-term rentals and long-term rentals have surged respectively by 35% and 158%.

The upgrading of economies of scale, synergy, and operating leverage has improved the company's operation efficiency; the gross profit rate has increased by 4.3% from 43.2% in 2014 to the current 47.5%. After adjustment, the EBITDA ratio has increased from 56.8% to 62.8%.

### Continuing Slowdown of Expanding in the Fourth Quarter

In accordance with our last report, we have decided to transform from extensive expansion to growth that gives priority to efficiency. However, our counterparts have increased their subsidies in the fourth quarter, producing negative impacts on our short-term rentals in the fourth quarter: the daily revenue per vehicle in the fourth quarter has decreased by RMB3 to 157, while the average daily rent has increased by RMB1 to 261 on year-on-year basis. In face of competitions, the management plans to remain a reasonable supply / demand ratio to keep healthy growth.

In terms of quasi-new cars, we intend to enhance our investment. As it will inevitably place burdens on the performance in the short run, we are still exploring into the operational model.

## Accumulate (downgrade)

CMP: HKD 9.04

(Closing price as at 30 March 2016)

TARGET: HKD 9.85 (+9%)

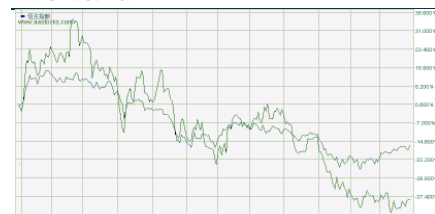
### COMPANY DATA

O/S SHARES (MN) :	2398
MARKET CAP (HKD MN) :	21649
52 - WK HI/LO (HKD):	19.86 / 9.88

### SHARE HOLDING PATTERN, %

UCAR	29.2
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### PRICE VS. HSI



Source: Phillip Securities (HK) Research

### KEY FINANCIALS

CNY mn	FY14	FY15E	FY16E	FY17E
Net Sales	3,520	5,003	6,073	7,568
Net Profit	436	1,401	1,340	1,448
EPS, CNY	0.23	0.57	0.55	0.59
P/E, x	30.8	13.2	13.8	12.9
BVPS, CNY	2.79	2.99	3.58	4.20
P/BV, x	2.6	2.5	2.1	1.8
DPS (CNY)	0.00	0.00	0.00	0.00
Div. Yield (%)	0.0%	0.0%	0.0%	0.0%

Source: Company reports, Phillip Securities Est.

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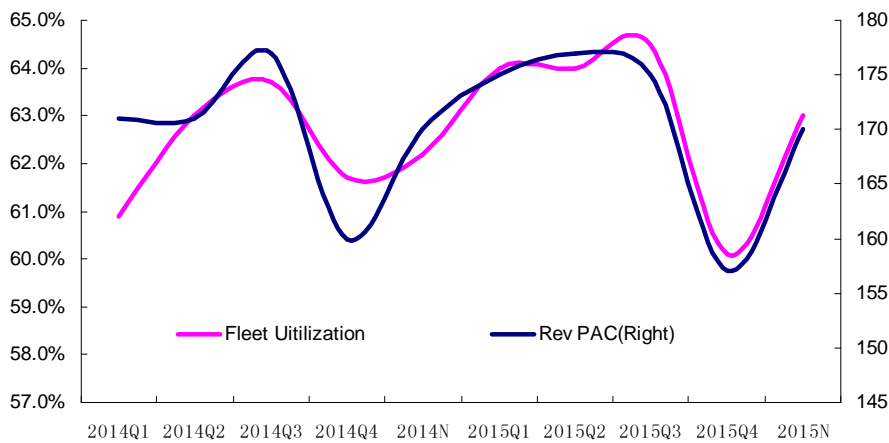
**The Withdrawal of Hertz Means the End of Bad News**

The company has recently released a series of changes in equity. Hertz has reduced its holdings from 8.5% to 1.73%, while UCAR Technology Inc. has increased its shareholdings to 29% and become the first majority shareholder. It means that Charles Zhengyao LU, the chairman and CEO, has held 29% of the company's shares through UCAR, and that ownership is more centralized, which is in favor of the management's control on the company.

**Investment Thesis**

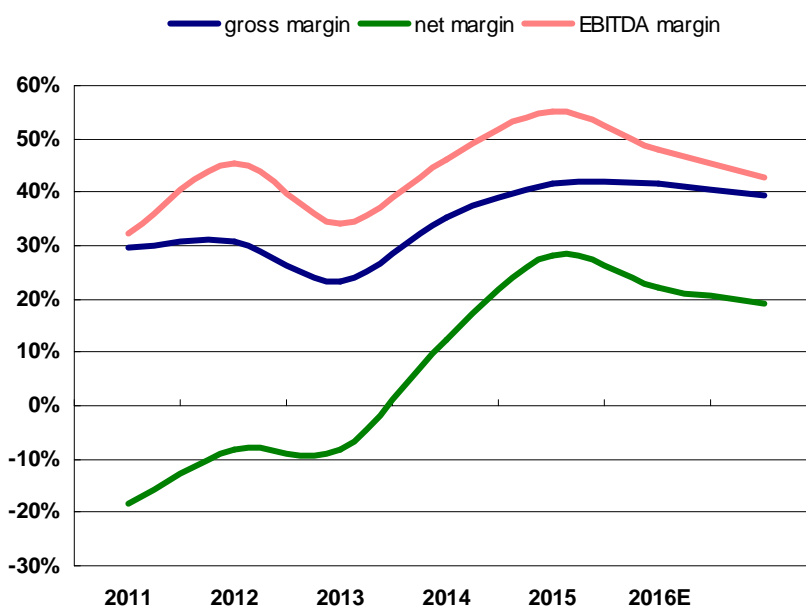
In view of the actual profitability which is lower than expected, we lower the earnings per share to RMB0.55/0.59 in 2016/2017. The company's current valuation has relatively great safety margin, and its position as an industry leader is stable. Despite the great uncertainty of private car business, we believe that the innovation and strong power of execution of the company will enable us to face future challenges. We give a target price of HKD9.85, equivalent to the 15/14 x P/E ratio in 2016/2017. Long-term investors are encouraged to accumulate gradually. (Closing price as at 30 March 2016)

**CAR's main index**



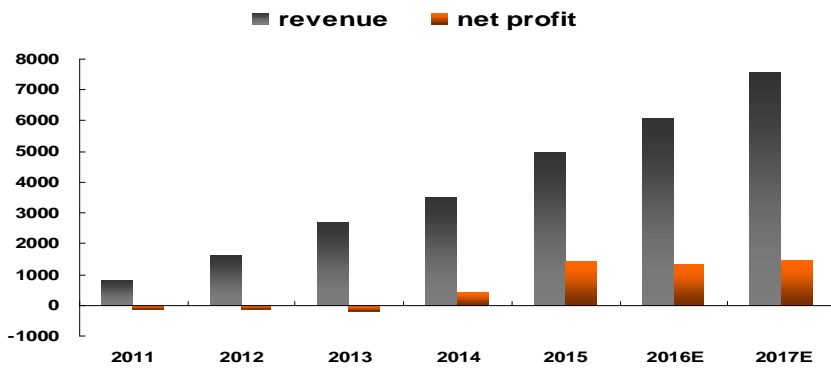
Source: Wind, Phillip Securities Hong Kong Research

**CAR's margin**



Source: Wind, Phillip Securities Hong Kong Research

**CAR's revenue and net profit**



Source: Wind, Phillip Securities Hong Kong Research

## Financials

FYE DEC	FY12	FY13	FY14	FY15	FY16F	FY17F
<b>Valuation Ratios</b>						
P/E (X), adj.	NA	NA	30.8	13.2	13.8	12.9
P/B (X)	NA	NA	2.6	2.5	2.1	1.8
Dividend Yield (%)	NA	NA	0.0%	0.0%	0.0%	0.0%
Dividend payout ratio (%)	NA	NA	0.0%	0.0%	0.0%	0.0%
<b>Per share data (RMB)</b>						
EPS, reported	NA	-0.12	0.24	0.59	0.57	0.61
EPS, adj.	NA	-0.12	0.23	0.57	0.55	0.59
DPS	NA	NA	0.00	0.00	0.00	0.00
BVPS	NA	NA	2.79	2.99	3.58	4.20
<b>Growth &amp; Margins (%)</b>						
<b>Growth</b>						
Revenue	96.4%	68.0%	30.3%	42.1%	21.4%	24.6%
EBIT	-1354.7%	-32.8%	713.1%	94.0%	24.6%	17.0%
Net Income, adj.	NA	NA	NA	221.3%	-4.4%	8.0%
<b>Margins</b>						
<b>Gross margin</b>	<b>30.6%</b>	<b>23.3%</b>	<b>35.2%</b>	<b>41.8%</b>	<b>41.6%</b>	<b>39.2%</b>
EBIT margin	9.1%	3.6%	22.6%	30.9%	31.7%	29.8%
Net Profit Margin	NA	NA	12.4%	28.0%	22.1%	19.1%
<b>Key Ratios</b>						
ROE (%)	-161.99%	-505.00%	15.4%	22.1%	17.2%	15.7%
ROA (%)	-3.00%	-3.98%	5.4%	10.7%	7.8%	7.7%
<b>Income Statement (RMB mn)</b>						
<b>Revenue</b>	<b>1609</b>	<b>2703</b>	<b>3520</b>	<b>5003</b>	<b>6073</b>	<b>7568</b>
- Cost of Revenue	1116	2074	-2281	-2912	-3545	-4602
<b>Gross Profit</b>	<b>493</b>	<b>629</b>	<b>1239</b>	<b>2091</b>	<b>2528</b>	<b>2966</b>
Other income	-8	21	26	670	258	67
Selling Expense	-140	-153	-93	-80	-85	-91
Admin Expense	-207	-378	-350	-466	-516	-621
Interest Expense	-270	-335	-309	-547	-589	-598
<b>Operating Income</b>	<b>146</b>	<b>98</b>	<b>797</b>	<b>1546</b>	<b>1927</b>	<b>2255</b>
<b>EBT</b>	<b>-132</b>	<b>-216</b>	<b>513</b>	<b>1669</b>	<b>1596</b>	<b>1724</b>
- Income Tax	0	-7	-77	-267	-255	-276
<b>Net profit</b>	<b>-132</b>	<b>-223</b>	<b>436</b>	<b>1401</b>	<b>1340</b>	<b>1448</b>
Total capital share	NA	1867	2005	2372	2372	2372

Source: PSR

(Financial figures as at 30 March 2016)

**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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