

Dongfeng (489.HK)

Weighting of SUV continued to lift

Hong Kong | Automobile | Update Report

-Dongfeng's total revenue in 2015 increased by 15% according to proportionate consolidation method. The increase was a result of the changes in consolidated statement and the revenue growth due to the launch of new passenger vehicles. The overall cost growth outweighed the revenue growth, while integrated gross profit margin decreased from last year's 21% to 18.5%, down 2.5 percentage points.

-The profit attributable to shareholders drooped by 19% to RMB6.885 billion owing to the lack of last year's one-time gain of RMB2.3 billion from the acquisition of equity in PSA Group. With such influence excluded, the net profit in 2015 slightly grew by about 3.5%.

-Dongfeng's total sale of vehicles in 2015 recorded a YoY increase of 3.8% to 2.867 million, with passenger vehicles up by 7.8% to 2.522 million, and commercial vehicles down by 18.6% to 345,000. Sales of its joint ventures, including Dongfeng Nissan, Dongfeng Honda and Dongfeng Peugeot Citroen, recorded a YoY growth of 5% to 1 million, 32% to 406,000 and 1% to 710,000, respectively. With respect to its own brands, the sales of Dongfeng Liuzhou Motor's passenger vehicles witnessed a YoY increase of 4% to 250,000 while that of Dongfeng Passenger Vehicle Company soared by 26% to 100,000.

-In accordance with domestic consumption trends, Dongfeng launched more SUV models to further optimize the sales structure. The sales of SUV soared by 87.6% to 930,000, accounting for 37% of all passenger vehicles sold. In 2016, Dongfeng Motor Group will launch 14 all-new or updated models, 2 more than last year. In 2017 the figure is expected to reach 15-16, in which SUVs will account for about a half. We estimate that SUVs remain the key driver for the sales of passenger vehicles.

Investment Thesis

As a large-sized SOE, the run-in period caused by the recent change of management level, and probable currency exchange loss, are the major risks faced by Dongfeng in short term. In accordance with the latest data, we adjust the company's EPS to RMB1.49 and RMB1.61 in 2016/2017, respectively, and target price to HK\$11.2, equivalent to 6.3/5.9x P/E ratio in 2016/2017. The "Buy" rating is given.

22 JUNE 2016

BUY (Upgrade)

CMP: HKD 8.24

(Closing price as at 20 June 2016)

TARGET: HKD 11.20 (+36%)

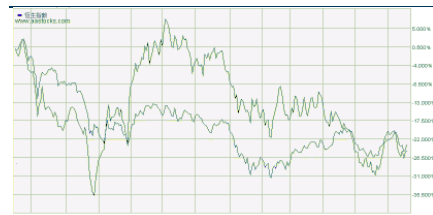
COMPANY DATA

O/S SHARES (MN) :	8616
MARKET CAP (HKD MN) :	23531
52 - WK HI/LO (HKD):	12 / 7.02

SHARE HOLDING PATTERN, %

Dongfeng Motor Corporation	66.86
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PRICE VS. HSI



Source: Phillip Securities (HK) Research

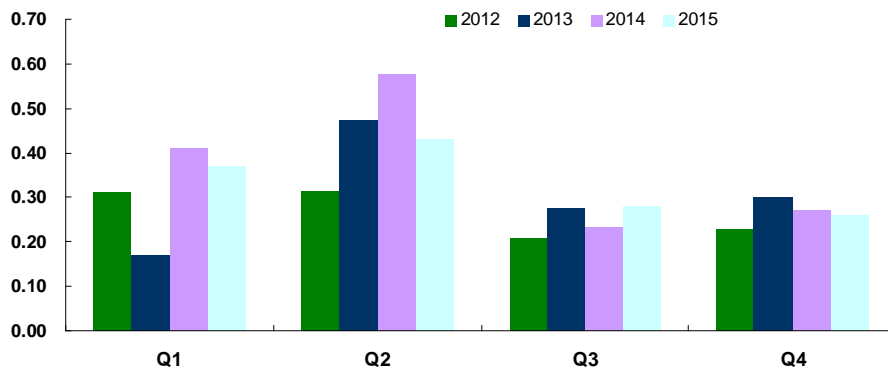
KEY FINANCIALS

CNY mn	FY14	FY15	FY16E	FY17E
Net Sales	195211	226863	251029	263621
Net Profit	12845	11550	12825	13834
EPS, CNY	1.49	1.34	1.49	1.61
P/E, x	4.4	5.2	4.7	4.3
BVPS, CNY	8.24	9.82	11.24	12.77
P/BV, x	0.8	0.7	0.6	0.5
DPS (CNY)	0.20	0.20	0.22	0.24
Div. Yield (%)	3.1%	2.9%	3.2%	3.4%

Source: Company reports, Phillip Securities Est.

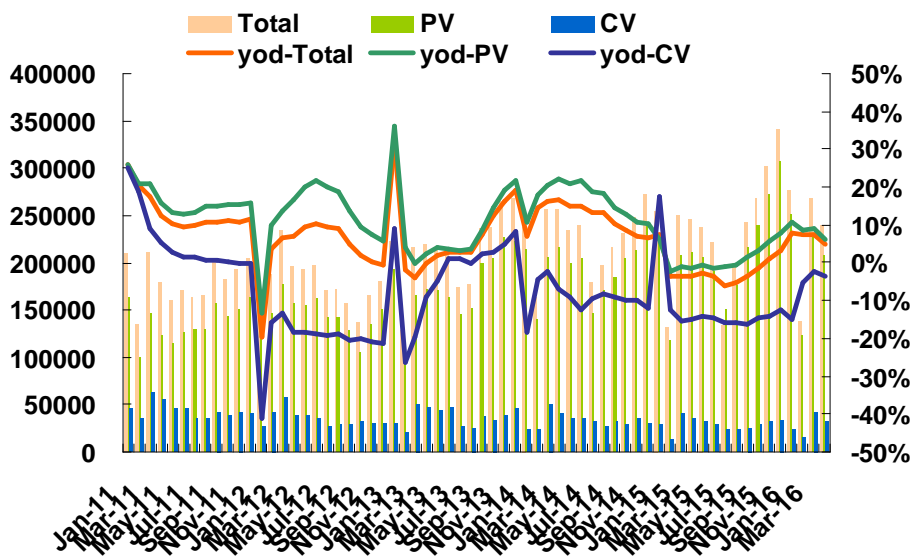
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Dongfeng's EPS by quarters



Source: Company, Phillip Securities Hong Kong Research

Dongfeng's monthly sales



Source: Company, Phillip Securities Hong Kong Research

Financials

FYE DEC	FY12	FY13	FY14	FY15	FY16F	FY17F
Valuation Ratios						
P/E (X), adj.	6.3	5.3	4.4	5.2	4.7	4.3
P/B (X)	1.1	0.9	0.8	0.7	0.6	0.5
Dividend payout Yield (%)	14.2%	14.7%	13.4%	14.9%	14.8%	14.9%
Dividend Yield (%)	2.3%	2.8%	3.1%	2.9%	3.2%	3.4%
Per share data (RMB)						
EPS, reported	1.06	1.22	1.49	1.34	1.49	1.61
EPS, adj.	1.06	1.22	1.49	1.34	1.49	1.61
DPS	0.15	0.18	0.20	0.2	0.22	0.24
BV/PS	6.3	7.3	8.2	9.8	11.2	12.8
Growth & Margins (%)						
Growth						
Revenue	-5.6%	30.0%	21.1%	16.2%	10.7%	5.0%
EBIT	-12.0%	20.7%	20.0%	-2.2%	10.0%	7.5%
Net Income, adj.	-13.3%	15.8%	22.0%	-10.1%	11.0%	7.9%
Margins						
EBIT margin	10.5%	9.7%	9.6%	8.1%	8.1%	8.3%
Net Profit Margin	7.3%	6.5%	6.6%	5.1%	5.1%	5.2%
Key Ratios						
ROE (%)	18.13%	17.99%	18.76%	14.58%	14.13%	13.37%
ROA (%)	7.83%	7.36%	6.90%	5.39%	5.41%	5.40%
Income Statement (RMB mn)						
Revenue	124036	161253	195211	226863	251029	263621
Gross profit	23876	31900	38321	43523	47696	50352
EBIT	12986	15679	18807	18399	20238	21760
Profit before tax	12758	15448	19197	18483	20366	21920
Tax	(2919)	(3989)	(5237)	(5025)	(5438)	(5853)
Profit for the period	9779	11459	13960	13458	14928	16068
Minority interests	(687)	(931)	(1115)	(1908)	(2103)	(2233)
Total capital share	8616	8616	8616	8616	8616	8616
Net profit	9092	10528	12845	11550	12825	13834

Source: PSR

(Financial figures as at 20 JUNE 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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