

JAC (600418.CH)

Short-term Callback Opens up Favourable Buy Opportunity

China | Automobile | Company Update

26 JULY 2016

Financial result review:

Over 50% Increase in Earnings Last Year

The FY2015 revenues of JAC amounted to RMB46.42 billion, up 19% yoy. Net profit attributable to parents stood RMB860 million, soaring 55% yoy. EPS was RMB0.59. DPS was RMB0.18, with the dividend payout ratio of 31%. The reason why the results fell short of our expectations is that the company appropriated large amounts of impairment losses on assets worth RMB130 million in Q4 2015. Addition, the expense ratio also increased.

Continued High Growth in FY Q1 2016

In Q1 2016, the company's rapid growth in profits continued under the revenue surging by 23% to RMB14.6 billion. The profit attributable to parent registered RMB279 million, up 25% yoy. EPS was RMB0.19.

Reviews of Sales data:

In 2015, the company's total sales increased strongly by 26.5% yoy to 587,900 vehicles. This good increase was primarily attributable to the growth in SUV (+254%), pure electric cars (+332%) and exports (+7%). Specifically, the demand of the small SUV models S3 and S2 was impressive, thereby consolidating the company's market position in the small SUV. Besides, in 2015, the company's pure electric car iev5, after it was unveiled, performed brilliantly. The first pure electric SUV iev6S has been launched in April 2016, which will further enhance the coverage and impact of the company's new energy vehicles. Also, the total sales in Q1 2016 continued to surge by 29% to 188,000 vehicles. Yet, the growth rate of the total sales in Q2 2016 saw a slight decrease due to the increase of base, greater burden of MPV / sedan and callback of exports, basically remaining unchanged at 145,000 vehicles over last year.

Actively Arrange New Energy Industry Chain

In the domain of new energy vehicles, by leveraging on accumulation of years of R&D base and great market base advantage, the company plans to further increase investment and accelerate the horizontal layout of the product lines, and proposes the strategic objective that "by 2025, the total sales of new energy vehicles exceeds 30% of that of all vehicles". The company has entered into a strategic framework agreement with Anhui JEE Automation Equipment Co., Ltd., SINOEV Technologies and Putian New Energy in such fields as motor, powertrain and charging piles, in order to actively arrange new energy industry chain.

In April 2016, the company signed a strategic cooperation framework agreement with NextEV. Both parties will undertake all-round cooperation in such links as R&D, manufacturing, supply chain and marketing platform. The mass production of the first cooperation OEM electric vehicle is scheduled to commence in 2017. We believe that the new energy vehicles is in line with the industry's development trend, and that the company's double-drive commercial (OBM + OEM) business model will provide double guarantees for giving the company a head start in the future competitions.

Investment Thesis

We revised our profit forecasts, with estimated EPS of RMB0.75 and RMB1.00 in 2016/2017 respectively. Our target price of RMB15.6 is equivalent to 20.8x/15.5x of its 2016/2017 PE. We reiterate a "BUY" rating. (Closing price as at 22 July 2016)

Buy (Maintain)

CMP: CNY 12.15

(Closing price as at 22 July 2016)

TARGET: CNY 15.60 (+27%)

COMPANY DATA

O/S SHARES (MN) :	1792
MARKET CAP (CNY MN) :	17778
52 - WK HI/LO (CNY):	17.08/ 8.48

SHARE HOLDING PATTERN, %

Anhui SASAC	29.2
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PRICE VS. SHCOMP



Source: Phillip Securities (HK) Research

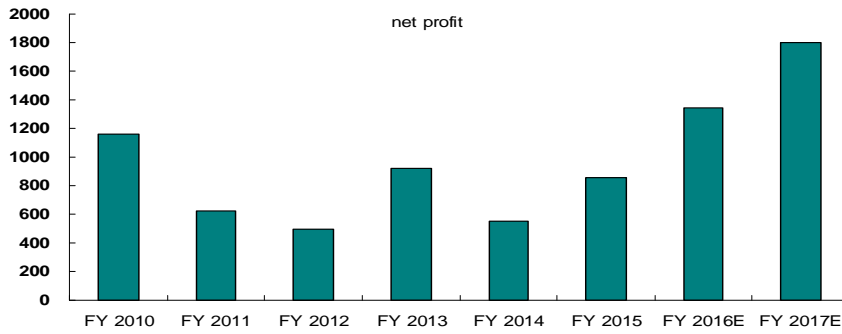
KEY FINANCIALS

CNY mn	FY14	FY15	FY16E	FY17E
Net Sales	33555	46416	54005	60337
Net Profit	617	858	1344	1799
EPS, CNY	0.41	0.59	0.75	1.00
P/E, x	29.5	20.7	16.2	12.1
BVPS, CNY	5.45	5.75	6.40	7.27
P/BV, x	2.2	2.1	1.9	1.7
DPS (CNY)	0.11	0.18	0.23	0.31
Div. Yield (%)	0.9%	1.5%	1.9%	2.6%

Source: Company reports, Phillip Securities Est.

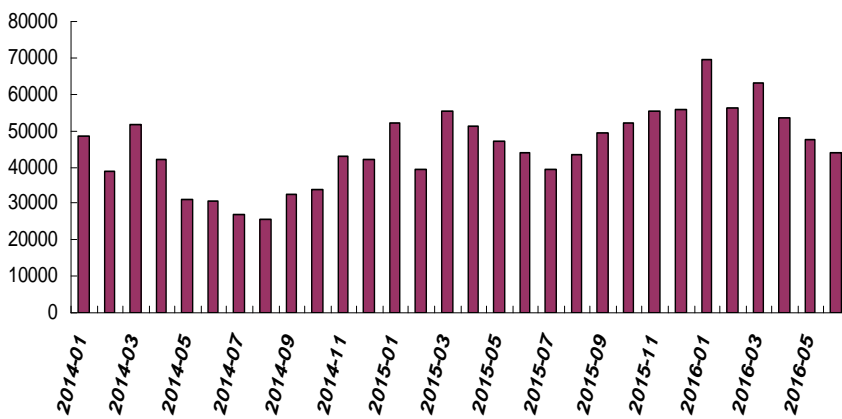
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Net Profit trend



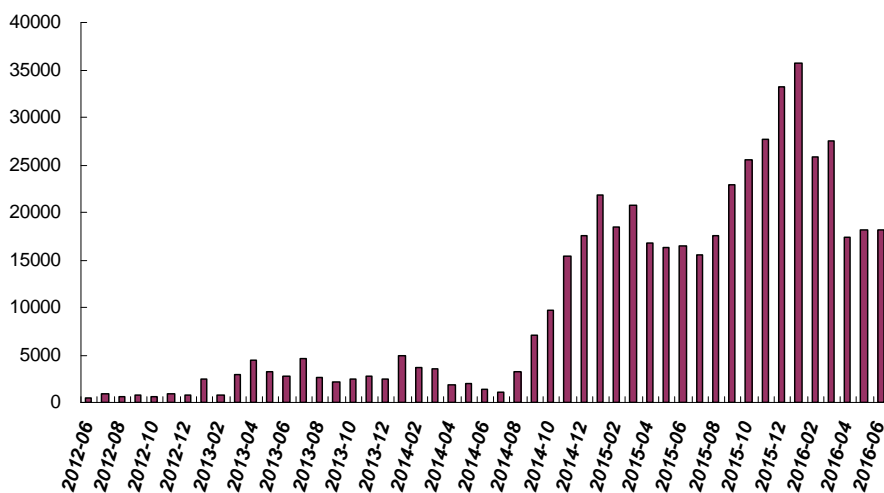
Source: Company, Phillip Securities Hong Kong Research

Total sales of JAC



Source: Company, Phillip Securities Hong Kong Research

SUV sales of JAC



Source: Company, Phillip Securities Hong Kong Research

Financials

FYE DEC	FY11	FY12	FY13	FY14	FY15	FY16F	FY17F
Valuation Ratios							
P/E (X), adj.	25.2	31.6	17.0	29.5	20.7	16.2	12.1
P/B (X)	2.7	2.6	2.3	2.2	2.1	1.9	1.7
Dividend payout ratio(%)	31.1%	28.7%	30.8%	26.7%	30.7%	30.7%	30.9%
Dividend Yield (%)	1.2%	0.9%	1.8%	0.9%	1.5%	1.9%	2.6%
Per share data (RMB)							
EPS, (Basic)	0.48	0.38	0.71	0.41	0.59	0.75	1.00
EPS, (Diluted)	0.48	0.38	0.71	0.41	0.59	0.75	1.00
DPS	0.15	0.11	0.22	0.11	0.18	0.23	0.31
BVPS	4.53	4.65	5.32	5.45	5.75	6.40	7.27
Growth & Margins (%)							
Growth							
Revenue	4.9%	-6.1%	15.7%	1.9%	38.3%	16.4%	11.7%
EBIT	-64.5%	-30.7%	152.8%	-92.9%	-2574.5%	-27.6%	-53.3%
Net Income, adj.	-46.6%	25.8%	20.6%	-10.1%	38.9%	56.7%	33.9%
Margins							
Gross margin	11.2%	12.9%	14.5%	12.0%	11.2%	11.8%	12.4%
EBIT margin	1.5%	1.1%	2.4%	0.2%	-3.0%	-1.9%	-0.8%
Net Profit Margin	1.5%	2.0%	2.1%	1.8%	1.8%	2.5%	3.0%
Key Ratios							
ROE	11.1%	8.4%	14.3%	7.6%	10.6%	12.3%	14.7%
Income Statement (RMB mn)							
Revenue	30306	28465	32940	33555	46416	54005	60337
Gross profit	3380	3662	4764	4033	5200	6367	7494
EBIT	460	319	806	57	-1411	-1021	-477
Profit before tax	713	551	1035	571	1007	1578	2126
Tax	84	47	103	32	151	237	319
Profit for the period	629	505	932	539	855	1342	1807
Minority interests	8	10	15	10	-2	-2	8
Total capital share	1289	1288	1285	1285	1463	1792	1792
Net profit	452	569	686	617	858	1344	1799

Source: PSR

(Financial figures as at 22 July 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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