

# JAC (600418.CH)

## Enlisting Cooperation with Volkswagen, Creating the Age of New Energy Vehicles

11 October 2016

### China | Automobile | Company Update

#### Soar of 7.5% in H12016 Earnings

During the first half of 2016, JAC recorded revenue of RMB26.39 billion, representing a yoy increase of 12.3%. The net profit attributable to parent company was RMB577 million, representing a steady yoy growth of 7.5%, with the corresponding EPS of RMB0.39.

During 2016H, the Company achieved the sales volume of 334,000 units, representing a yoy increase of 14%, with the sales volume of passenger vehicles up by 17% to 189,000 and that of commercial vehicles up by 11% to 145,000. The increment was mainly contributed by the SUV and light trucks with the overall growth rate higher than the industry average level. While compared to the previous rapid growth, the growth rate significantly slowed down.

We held that the slowdown was mainly because of the fierce competition of the Company's main product, the S3, in the mini SUV segment. Because of the price war concerning the small SUV, during 2016H, JAC realized a gross profit margin of 9.6%, decreased by 3.8 ppts yoy. Yet, the Company plans to respond to the challenges by accelerating the small vehicle upgrade and product line extension: in the second half of 2016, the Company plans to launch the facelift and upgraded S2 and S3 products. In addition, it is said that the Company will launch the medium SUV model S7 in the coming year. We are positive about the performance of the new models.

#### Official Implementation of Equity Incentive Proposal

When releasing the interim report, the Company also launched the new equity incentive proposal: in order to effectively motivate the key employees, the Company plans to grant 18,852,000 shares of stock options to the 354 key employees, including the management and the key technical /sales personnel, equivalent to 1% of the total share capital. The exercise price is set at RMB12.42. The exercise condition is that the Company maintains the annual compound growth rate of net profit of over 10% from 2018 to 2020 with the ROE not lower than 6%. In addition, it is required that these two indexes should not be lower than the 75th percentile of those of the benchmarking enterprises in the industry. We agree that the equity incentive proposal can better stimulate the working initiative of the employees and the management. In the future, more employees may benefit from the proposal, which, at the same time, will drive further development of the Company.

#### Enlisting Cooperation with Volkswagen, Creating the Age of New Energy Vehicles

During 2016H, the Company realized the sales volume of 9,720 pure electric passenger vehicles, representing a yoy increase of 261%. According to the announcement issued by the Company recently, it is going to establish a new energy joint venture by cooperating with German Volkswagen Group with the investment proportion of 50:50. The Company plans to release 30 new models of new energy vehicles by 2025 and achieve the annual sales volume of 2 to 3 million units. It also plans to make investment in building battery plants with €10 billion. We view the cooperation between JAC and Volkswagen the new beginning of JAC's new energy vehicle business and its abilities of new energy vehicle R&D and production, etc will be significantly improved.

### Investment Thesis

In short term, we wouldn't change the estimate of 0.75/1.00yuan EPS of the Company in 2016/2017. The cooperation with Volkswagen is expected to significantly improve the Company's mid- and long-term performance. Therefore, the Company's target price is raised to RMB18 and the "Buy" rating is granted..

### Buy (Maintain)

CMP: CNY 13.88

(Closing price as at 30 September 2016)

TARGET: CNY 18.00 (+30%)

#### COMPANY DATA

O/S SHARES (MN) :	1792
MARKET CAP (CNY MN) :	26317
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

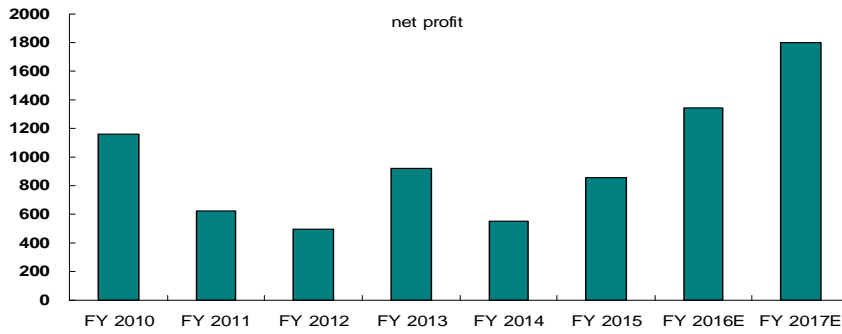
#### KEY FINANCIALS

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	33.7	23.7	18.5	13.8
BVPS, CNY	5.45	5.75	6.40	7.27
P/BV, x	2.5	2.4	2.2	1.9
DPS (CNY)	0.11	0.18	0.23	0.31
Div. Yield (%)	0.8%	1.3%	1.7%	2.2%

Source: Company reports, Phillip Securities Est.

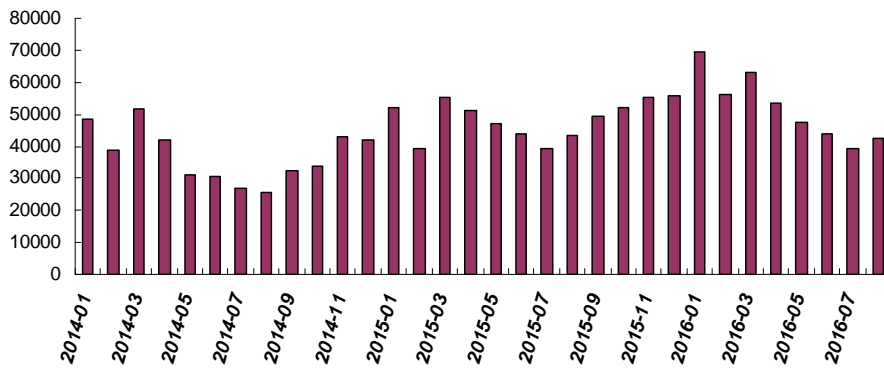
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**Net Profit trend**



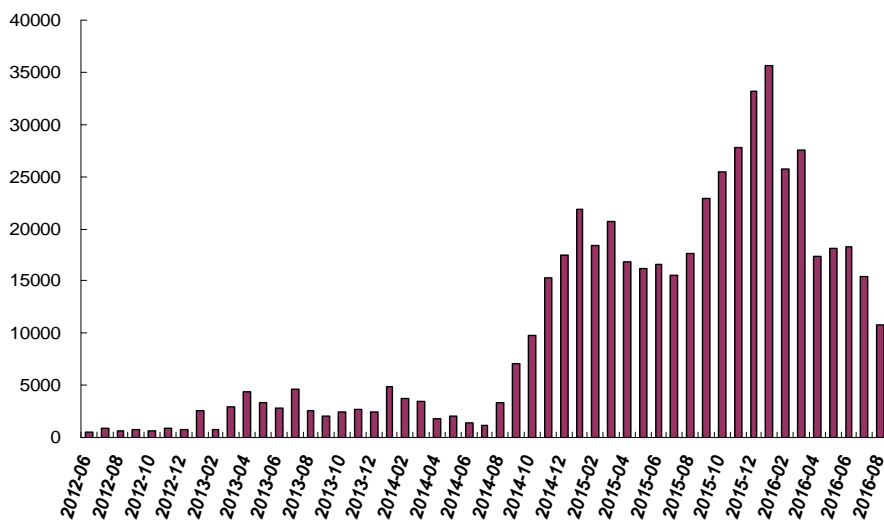
Source: Company, Phillip Securities Hong Kong Research

**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
<b>Valuation Ratios</b>							
P/E (X), adj.	28.8	36.2	19.4	33.7	23.7	18.5	13.8
P/B (X)	3.1	3.0	2.6	2.5	2.4	2.2	1.9
Dividend payout ratio(%)	31.1%	28.7%	30.8%	26.7%	30.7%	30.7%	30.9%
Dividend Yield (%)	1.1%	0.8%	1.6%	0.8%	1.3%	1.7%	2.2%
<b>Per share data (RMB)</b>							
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
<b>Growth &amp; Margins (%)</b>							
<b>Growth</b>							
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%
<b>Margins</b>							
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%
<b>Key Ratios</b>							
ROE	11.1%	8.4%	14.3%	7.6%	10.6%	12.3%	14.7%
<b>Income Statement (RMB mn)</b>							
<b>Revenue</b>	<b>30306</b>	<b>28465</b>	<b>32940</b>	<b>33555</b>	<b>46416</b>	<b>54005</b>	<b>60337</b>
<b>Gross profit</b>	<b>3380</b>	<b>3662</b>	<b>4764</b>	<b>4033</b>	<b>5200</b>	<b>6367</b>	<b>7494</b>
EBIT	460	319	806	57	-1411	-1021	-477
Profit before tax	713	551	1035	571	1007	1578	2126
<b>Tax</b>	<b>84</b>	<b>47</b>	<b>103</b>	<b>32</b>	<b>151</b>	<b>237</b>	<b>319</b>
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
<b>Net profit</b>	<b>452</b>	<b>569</b>	<b>686</b>	<b>617</b>	<b>858</b>	<b>1344</b>	<b>1799</b>

Source: PSR

(Financial figures as at 30 September 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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