

BAIC (1958.HK)

Updates: maintain the "Buy" rating

Hong Kong | Automobile | Update Report

19 October 2016

Nearly 20% Increase in Total Sales in the First Three Quarters

In the first nine months of this year, the total number of vehicles sold by BAIC Motor recorded 1,315,362 units, representing a year-on-year increase of approximately 19%, better than the industry average. To be specific, the sales of Beijing Benz witnessed a substantial year-on-year increase of 29% to 226,795 units. Besides, the sales of independent brands skyrocketed by 51% to 309,567 units compared with that of the last year. And the sales of Beijing Hyundai grew by 7.5% over last year to 779,000 units. The strong rise of Beijing Benz was primarily because it was in the strong product cycle and its new products were well received by the market upon launch. The growth of proprietary brand was because it unveiled a number of new SUVs based on the booming domestic SUV market and the SUV sales soared by eight times to 156,160 units. Currently, the only less ideal Beijing Hyundai seems to show a gradually stable trend.

Sales of Blade Electric Vehicles Remained Number One

It is worth mentioning that the performance of new energy vehicles, the market focus, was the highlight. The sales of new energy vehicles under BAIC Motor brands amounted to about 30,274 units in the first nine months of 2016, up by 169% over the previous year and remained number one in the sales of pure electric vehicles nationwide. When it comes to the future planning for new energy vehicle models, according to the management of BAIC BJEV, A00-class sedan coded `C10` and B-class sedan coded `C80` would be launched around this October, and ARCFOX-1 would be released at the end of this year and officially listed on the market in the first half of next year. Also, EX300L displayed in the Beijing International Automotive Exhibition would also be unveiled next year. A vast range of new vehicles and addition of the first product of ARCFOX are expected to consolidate and continue improving the competitive edge of BAIC BJEV, and facilitate the sales of its new energy vehicle parts.

Investment Thesis

In respect of share price catalysts, the company may benefit from two favorable news: 1) It is rumored that BAIC Motor is expected to establish a JV with Fiat Chrysler Automobiles NV (FCA). Apart from the Jeep brand, FCA owns a variety of classic SUV models including Chrysler and Dodge. If the rumor is true, we believe this will further diversify SUV model reserve of BAIC Motor, and allow BAIC Motor to more fully share benefits of the Chinese SUV consumption boom. 2) The Chinese government issued the Exposure Draft of Online Car-hailing Service Management, imposed very strict requirements on the parameters of new energy vehicles and eliminated most competitive models on the market. Yet, two types of BAIC Motor electric vehicles were short-listed and are projected to profit from the car-hailing service management. We lift the target price to HKD9.8 and maintain the rating to "Buy". (Closing price as at 17 October 2016)

BUY (Maintain)

CMP: HKD 7.93

(Closing price as at 17 October 2016)

TARGET: HKD 9.80 (+24%)

COMPANY DATA

O/S SHARES (MN) :	7595
MARKET CAP (HKD MN) :	16658
52 - WK HI/LO (HKD):	8.76 / 4.62

SHARE HOLDING PATTERN, %

Beijing Automotive Group Co., Ltd	45.6
Beijing Shougang Co., Ltd	13.7
Daimler AG	10.08

PRICE VS. HSI



Source: Phillip Securities (HK) Research

KEY FINANCIALS

CNY mn	12/14	12/15	12/16F	12/17F
Net Sales	56,370	84,112	106,848	130,334
Net Profit	4,511	3,319	4,774	5,996
EPS, CNY	0.70	0.44	0.63	0.79
P/E, x	8.9	15.1	10.9	8.7
BVPS, CNY	5.20	4.61	4.82	5.27
P/BV, x	1.2	1.4	1.4	1.3
DPS (CNY)	0.30	0.15	0.22	0.27
Div. Yield (%)	4.8%	2.3%	3.2%	3.9%

Source: Company reports, Phillip Securities Est.

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Financials

FYE DEC	FY12	FY13	FY14	FY15	FY16F	FY17F
Valuation Ratios						
P/E (X), adj.	9.4	13.0	8.9	15.1	10.9	8.7
P/B (X)	2.0	1.5	1.2	1.4	1.4	1.3
Dividend Yield (%)	4.7%	5.1%	4.8%	2.3%	3.2%	3.9%
Dividend payout ratio (%)	44.1%	66.7%	42.9%	34.3%	35.0%	34.2%
Per share data (RMB)						
EPS, reported	0.68	0.48	0.70	0.44	0.63	0.79
EPS, adj.	0.68	0.48	0.70	0.44	0.63	0.79
DPS	0.30	0.32	0.30	0.15	0.22	0.27
BV/PS	3.16	4.22	5.20	4.61	4.82	5.27
Growth & Margins (%)						
Growth						
Revenue	83.7%	263.1%	341.0%	49.2%	27.0%	22.0%
EBIT	37.6%	-10.2%	104.3%	20.8%	44.1%	23.6%
Net Income, adj.	31.5%	-20.6%	66.2%	-26.4%	43.9%	25.6%
Margins						
Gross margin	-4.8%	3.2%	15.9%	18.2%	19.4%	19.8%
EBIT margin	112.0%	27.7%	12.8%	10.4%	11.8%	11.9%
Net Profit Margin	97.1%	21.2%	8.0%	3.9%	4.5%	4.6%
Key Ratios						
ROE (%)	0.38%	2.58%	1.8%	9.7%	13.3%	15.7%
Income Statement (RMB mn)						
Revenue	3,520	12,782	56,370	84,112	106,848	130,334
Cost of sales	3,688	12,367	47,387	68,835	86,087	104,528
Gross profit	-168	415	8,983	15,277	20,761	25,806
Other income and gains	1,856	620	1,540	1,244	2,389	2,962
Operating expenditure	1,537	3,519	9,101	12,042	14,980	17,921
Financial costs	158	474	533	416	628	730
Profit before tax	3,785	3,065	6,698	8,321	11,964	14,831
Tax	226	114	857	1,999	2,871	3,411
Profit for the period	3,478	2,951	5,841	6,322	9,093	11,420
Minority interests	61	237	1,330	3,003	4,319	5,425
Net profit	3,417	2,714	4,511	3,319	4,774	5,996

Source: PSR

(Financial figures as at 17 October 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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