

BAIC (1958.HK)

Mixed future continued

Hong Kong | Automobile | Update Report

24 April 2017

90% Increase in Yearly Results

The 2016 revenue of BAIC Motor increased 38% yoy to RMB116.12 billion, exceeding RMB100 billion for the first time. Net profit attributable to equity holders reached RMB6.367 billion, up 91.9% yoy, mainly contributed by Beijing Benz Automotive Co., Ltd. and Beijing brands. The company's proposed final dividend per share was RMB0.29, with the dividend payout ratio of 34.5%.

Gross Margin Conversion of Self-owned Brands

Led by the hot sale of SUV, sales of Beijing Brand increased to 457,000 units, up 35.6% yoy; sales income from Beijing brands increased to RMB30.89 billion, up 73% yoy. The fact that the sales income is much higher than sales reflected the rise of average unit price, with the gross margin raised from -8% of last year to 2.8%. Distribution and administration expenses ratio decreased by 3.5 ppts and 1.7 ppts to 6.7% and 4.3%, respectively.

Beijing Benz Maintained Robust Growth Momentum

Stimulated by the strong product circle, the annual sales of Beijing Benz increased by 26.7% yoy to 317,000 units, and 28.7% yoy to RMB85.312 billion; sales income Beijing Benz increased to RMB85.312 billion, up 28.7% yoy. Thanks to the improvement of localization rate and sales structure, the gross margin of Beijing Benz increased 4.5 ppts to 29.7%; net profit margin increased by 3 ppts yoy.

Ordinary Performance of Beijing Hyundai

As a result of the more fierce competition of market segments and updating of some products, Beijing Hyundai sold 1.142 million cars, up 7.5% yoy. To be specific, the proportion of D-level and SUV increased to 50%; the increase of promotion expenses however damaged profitability, with the return on investment decreased 4.1% to RMB3.907 billion yoy.

Sales update in the First Two Months

The total sales volume of Beijing Auto reached 110,300 units in the first two months, representing an increase of 5.2% yoy. To be specific, the sales volume of Beijing Benz witnessed a yoy increase of 58% to 73,500 units; that of Beijing brands decreased 43% yoy to 34,500 units; that of Beijing Hyundai increased to 1.4 million units, up 9% yoy. We believe that besides base effect, the conversion of vehicle types is the main reason. Looking into the future, we expect that Korean vehicles and Beijing brands will face fierce competition, but Beijing Benz and new-energy EV will keep the trend of increase.

Investment Thesis

We believe that consumers are becoming more rational, and even in accordance with a conservative estimate of Korean cars this year that the contribution of 20% backward, the EPS for 2017/2018 is expected to be 0.91, 1.12 yuan, the market is too worried about the political factors influences recently. We reclaim the target price to HKD9.8 with 9.7/8.0x P/E in 2017/2018 and maintain the rating to "Buy".

BUY (Maintain)

CMP: HKD 7.73

(Closing price as at 20 April 2017)

TARGET: HKD 9.80 (+27%)

COMPANY DATA

O/S SHARES (MN) :	7595
MARKET CAP (HKD MN) :	16238
52 - WK HI/LO (HKD):	9.5 / 4.84

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

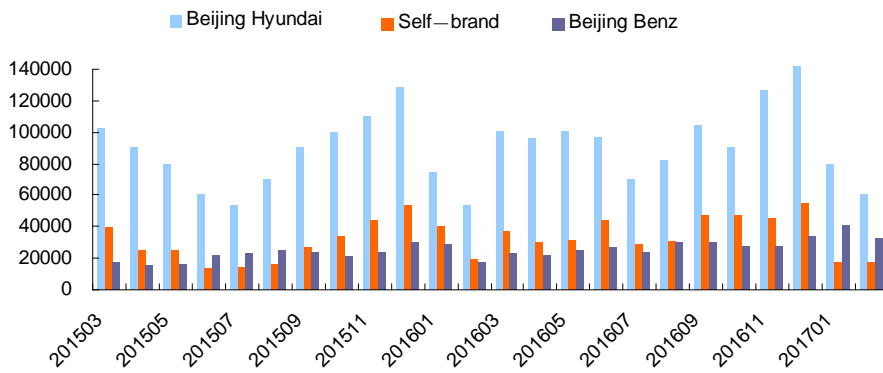
KEY FINANCIALS

CNY mn	12/15	12/16F	12/17F	12/18F
Net Sales	84,112	116,199	131,334	154,539
Net Profit	3,319	6,367	6,906	8,473
EPS, CNY	0.44	0.84	0.91	1.12
P/E, x	14.7	8.2	7.7	6.3
BVPS, CNY	4.61	5.29	5.98	6.80
P/BV, x	1.4	1.3	1.2	1.0
DPS (CNY)	0.15	0.29	0.32	0.39
Div. Yield (%)	2.3%	4.2%	4.6%	5.5%

Source: Company reports, Phillip Securities Est.

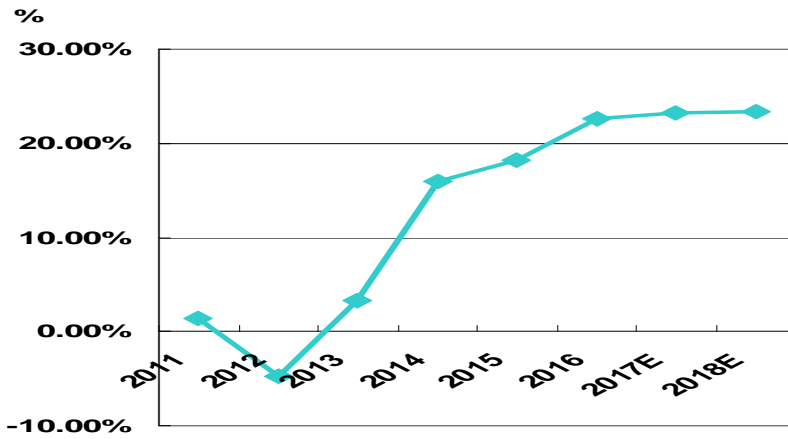
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BAIC's monthly sales



Source: Company, Phillip Securities Hong Kong Research

BAIC's gross profit margins



Source: Company, Phillip Securities Hong Kong Research

Financials

FYE DEC	FY12	FY13	FY14	FY15	FY16	FY17F	FY18F
Valuation Ratios							
P/E (X), adj.	9.1	12.7	8.7	14.7	8.2	7.7	6.3
P/B (X)	2.0	1.4	1.2	1.4	1.3	1.2	1.0
Dividend Yield (%)	4.8%	5.3%	4.9%	2.3%	4.2%	4.6%	5.5%
Dividend payout ratio (%)	44.1%	66.7%	42.9%	34.3%	34.6%	35.2%	35.0%
Per share data (RMB)							
EPS, reported	0.68	0.48	0.70	0.44	0.84	0.91	1.12
EPS, adj.	0.68	0.48	0.70	0.44	0.84	0.91	1.12
DPS	0.30	0.32	0.30	0.15	0.29	0.32	0.39
BVPS	3.16	4.22	5.20	4.61	5.29	5.98	6.80
Growth & Margins (%)							
Growth							
Revenue	83.7%	263.1%	341.0%	49.2%	38.1%	13.0%	17.7%
EBIT	37.6%	-10.2%	104.3%	20.8%	80.1%	8.5%	18.1%
Net Income, adj.	31.5%	-20.6%	66.2%	-26.4%	91.9%	8.5%	22.7%
Margins							
Gross margin	-4.8%	3.2%	15.9%	18.2%	22.6%	23.1%	23.1%
EBIT margin	112.0%	27.7%	12.8%	10.4%	13.5%	13.0%	13.1%
Net Profit Margin	97.1%	21.2%	8.0%	3.9%	5.5%	5.3%	5.5%
Key Ratios							
ROE (%)	0.38%	2.58%	1.8%	9.7%	16.9%	17.2%	18.1%
Income Statement (RMB mn)							
Revenue	3,520	12,782	56,370	84,112	116,199	131,334	154,539
Cost of sales	3,688	12,367	47,387	68,835	89,967	101,022	118,794
Gross profit	-168	415	8,983	15,277	26,232	30,312	35,745
Other income and gains	1856	620	1,540	1,244	189	462	608
Operating expenditure	1,537	3,519	9,101	12,042	14,901	17,247	19,974
Financial costs	158	474	533	416	468	519	569
Profit before tax	3,785	3,065	6,698	8,321	15,269	16,555	19,603
Tax	226	114	857	1,999	3,733	4,056	4,803
Profit for the period	3,478	2,951	5,841	6,322	11,536	12,499	14,800
Minority interests	61	237	1,330	3,003	5,169	5,593	6,327
Net profit	3,417	2,714	4,511	3,319	6,367	6,906	8,473

Source: PSR

(Financial figures as at 20 April 2017)

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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