

# Brilliance China (1114.HK)

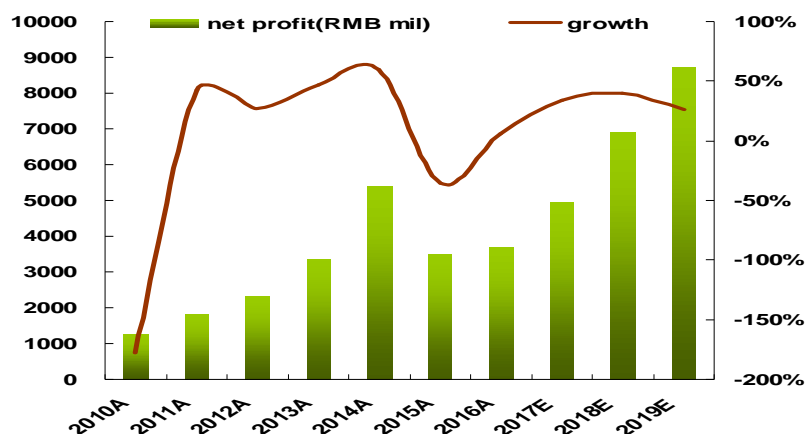
## The sales volume of the New 5 Series was better than expectation

Hong Kong | Automobile | Update Report

### Investment Summary

The growth rate of sales volume of BMW Brilliance was more than 30% in H1 2017 beyond expectations. We held optimistic expectations of the New 5 Series and the subsequent Domestic X3, and it helped to reduce the book loss by selling the business stake of light-duty passenger vehicles. Therefore, we adjusted the 2017/2018 diluted EPS of the Company to RMB0.908/1.26, raised the target price to HKD23, equivalent to 14.7/10.5x P/E ratio of 2017/2018, and maintained the "overweight" rating. (Closing price as at 1 Aug 2017)

Fig 1. 1114's net profit trend

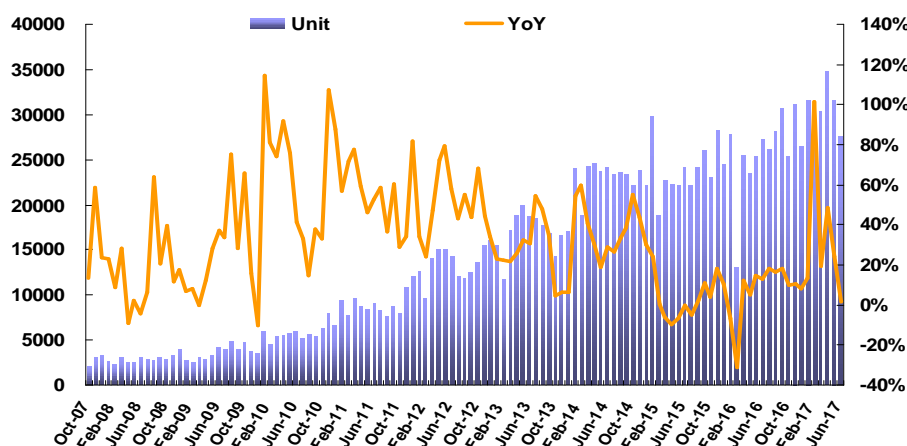


Source: Company, PSR

### The sales volume of BMW Brilliance was thirty percent more in H1

In H1 2017, a total of 185,000 BMW Brilliance cars were sold, up 30% yoy. Although the sales volume of 5 Series cars was affected by the upgrading replacement, down about 15% yoy, the Company still reported good sales results in H1 since demand for SUV Models X1, 3 Series was strong and New Models 2 Series Wagon and 1 Series Sedan were newly launched. X1's monthly average sales volume increased largely from 3,000 in the same period to 7,000, and 3 Series monthly average sales volume also increased from 8,000 to about 10,000.

Fig 2. BBA's monthly sales (units)



Source: wind, PSR

3 August 2017

### Accumulate (Maintain)

CMP HKD 19.3

(Closing price as at 1 Aug 2017)

TARGET HKD 23 (+19%)

#### COMPANY DATA

O/S SHARES (MN) :	6435
MARKET CAP (HKD MN) :	97374
52 - WK HI/LO (HKD):	19.8 / 8.09

#### SHARE HOLDING PATTERN, %

Huachen Automotive Group Holdings	42.48
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#### PRICE VS. HSI



Source: Phillip Securities (HK) Research

#### KEY FINANCIALS

CNY mn	FY15	FY16	FY17E	FY18E
Net Sales	4863	5125	5041	5151
Net Profit	3495	3682	4944	6921
EPS, CNY	0.70	0.73	0.98	1.38
P/E, x	23.3	23.4	17.7	12.8
BVPS, CNY	3.96	4.72	5.45	6.59
P/BV, x	4.1	3.6	3.2	2.7
DPS (CNY)	0.09	0.09	0.13	0.19
Div. Yield (%)	0.6%	0.6%	0.7%	1.1%

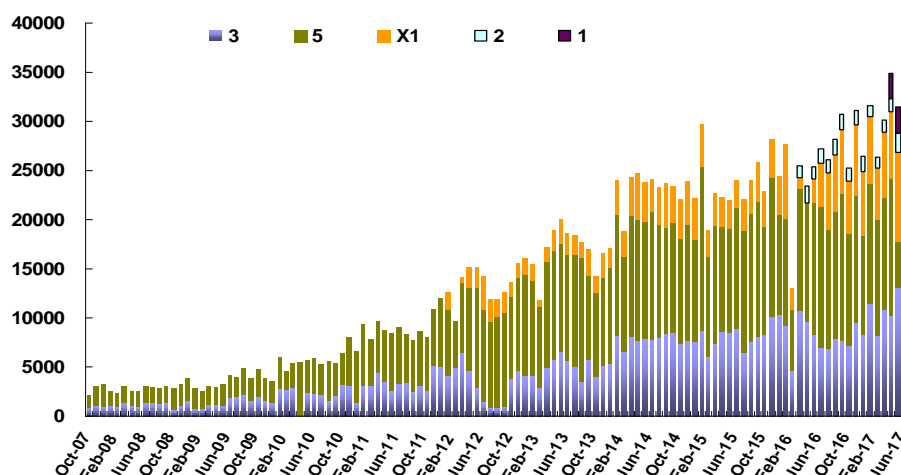
Source: Company reports, Phillip Securities Est.

Research Analyst  
**Zhangjing**  
 (+ 86 51699400-103)  
 zhangjing@phillip.com.cn

### The sales volume of the New 5 Series was better than expectation

BMW Brilliance new generation - 5 series would be launched in May, the latest two months' sales volumes of which were 4,694 and 5,275, respectively. It was still in a stable climbing stage with good terminal demand. We expected that the sales volume of 5 series cars would hit a breakout period with gradual release of the production capacity of Dadong plant. Moreover, the sales boom of the new 5 series would be expected to boost overall profitability compared with old models with larger discounts.

Fig 3. BBA's monthly sales by models (units)



Source: wind, PSR

### The Company proposed Renault for becoming a shareholder for its light-duty passenger vehicle business

The Company recently issued a notice that it would carry on asset reorganization for its light-duty passenger vehicle business with loss and would sell 49% equity of Shenyang Brilliance Jinbei Automobile Co., Ltd. to Renault at the price of RMB1. After selling, the Company and Renault would also invest RMB1.5 billion registered capital in this company, and both sides would assign 4 to 5 representatives to the Board of Directors.

Fig 4. Renault's light-bus models

#### 雷诺现有轻型商用车阵容



Source: internet, PSR

Due to the lack of strong competitiveness of products and other reasons, the Company's profitability of its main light-duty passenger vehicle business went downhill and it was currently in a serious loss to insolvent. Short-term sale of shares would help to reduce the burden of loss and improve cash flow. Judging from long-

term and medium-term development, it is hopeful to reshape competitiveness of the Company's light-duty passenger vehicle products as Renault's light-duty passenger vehicle's market share is 16% in Europe with mature advanced production technology, product lines and huge sales network and its European-style light-duty passenger vehicle design is in line with the future direction of development.

## Financials

FYE DEC	FY12	FY13	FY14	FY15	FY16	FY17F	FY18F
<b>Valuation Ratios</b>							
P/E (X), adj.	33.9	22.6	14.2	23.3	23.4	17.7	12.8
P/B (X)	7.8	5.9	4.5	4.1	3.6	3.2	2.7
Dividend payout Yield (%)	0.0%	11.7%	8.4%	13.0%	13.0%	12.8%	13.9%
Dividend Yield (%)	0.0%	0.5%	0.6%	0.6%	0.6%	0.7%	1.1%
<b>Per share data (RMB)</b>							
EPS, (Basic)	0.458	0.671	1.075	0.695	0.733	0.984	1.377
EPS, (Diluted)	0.456	0.669	1.071	0.693	0.730	0.980	1.372
DPS	0.00	0.08	0.09	0.09	0.09	0.13	0.19
BVPS	1.99	2.59	3.37	3.96	4.72	5.45	6.59
<b>Growth &amp; Margins (%)</b>							
<b>Growth</b>							
Revenue	-8.2%	3.2%	-9.6%	-11.8%	5.4%	-1.6%	2.2%
EBIT	15.9%	42.7%	59.4%	-37.7%	3.3%	30.8%	33.7%
Net Income, adj.	27.0%	46.6%	60.1%	-35.3%	5.4%	34.3%	40.0%
<b>Margins</b>							
Gross margin	11.8%	11.2%	10.2%	4.3%	3.3%	1.9%	1.6%
EBIT margin	40.5%	56.0%	98.7%	69.7%	68.4%	91.0%	119.0%
Net Profit Margin	38.9%	55.3%	98.0%	71.9%	71.8%	98.1%	134.4%
<b>Key ratios (%)</b>							
ROE	27.1%	29.3%	33.2%	19.0%	16.9%	19.4%	22.9%
ROA	15.9%	19.3%	24.2%	13.9%	12.7%	15.2%	18.9%
<b>Income Statement (RMB mn)</b>							
Revenue	5916	6103	5515	4863	5125	5041	5151
Gross profit	696	687	562	208	172	96	82
EBIT	2395	3416	5446	3391	3504	4585	6131
Profit before tax	2295	3325	5343	3325	3425	4501	6099
Tax	-58	-8	-43	-45	-36	-47	-65
Profit for the period	2237	3316	5300	3280	3389	4455	6034
Minority interests	-64	-58	-103	-214	-293	-490	-887
Total capital share	5024	5026	5026	5026	5026	5026	5026
Net profit	2301	3374	5403	3495	3682	4944	6921

Source: PSR

(Financial figures as at 1 August 2017)

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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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**Contact Information (Regional Member Companies)**
**SINGAPORE**
**Phillip Securities Pte Ltd**

250 North Bridge Road, #06-00 Raffles City Tower,  
Singapore 179101

Tel : (65) 6533 6001 Fax: (65) 6535 3834

[www.phillip.com.sg](http://www.phillip.com.sg)

**INDONESIA**
**PT Phillip Securities Indonesia**

ANZ Tower Level 23B, Jl Jend Sudirman Kav 33A,  
Jakarta 10220, Indonesia

Tel (62) 21 5790 0800 Fax: (62) 21 5790 0809

[www.phillip.co.id](http://www.phillip.co.id)

**THAILAND**
**Phillip Securities (Thailand) Public Co. Ltd.**

15th Floor, Vorawat Building, 849 Silom Road,  
Silom, Bangrak, Bangkok 10500 Thailand

Tel (66) 2 2268 0999 Fax: (66) 2 2268 0921

[www.phillip.co.th](http://www.phillip.co.th)

**UNITED STATES**
**Phillip Futures Inc.**

141 W Jackson Blvd Ste 3050

The Chicago Board of Trade Building

Chicago, IL 60604 USA

Tel (1) 312 356 9000 Fax: (1) 312 356 9005

**MALAYSIA**
**Phillip Capital Management Sdn Bhd**

B-3-6 Block B Level 3, Megan Avenue II,  
No. 12, Jalan Yap Kwan Seng, 50450 Kuala Lumpur

Tel (60) 3 2162 8841 Fax (60) 3 2166 5099

[www.poems.com.my](http://www.poems.com.my)

**CHINA**
**Phillip Financial Advisory (Shanghai) Co. Ltd.**

No 436 Heng Feng Road, Green Tech Tower Unit 604  
Shanghai 200 070

Tel (86) 21 5169 9400 Fax: (86) 21 6091 1155

[www.phillip.com.cn](http://www.phillip.com.cn)

**FRANCE**
**King & Shaxson Capital Ltd.**

3rd Floor, 35 Rue de la Bienfaisance  
75008 Paris France

Tel (33) 1 4563 3100 Fax : (33) 1 4563 6017

[www.kingandshaxson.com](http://www.kingandshaxson.com)

**AUSTRALIA**
**PhillipCapital Australia**

Level 12, 15 William Street,

Melbourne, Victoria 3000, Australia

Tel: (61) 3 9618 8238 Fax: (61) 3 9200 2277

[www.phillipcapital.com.au](http://www.phillipcapital.com.au)

**HONG KONG**
**Phillip Securities (HK) Ltd**

11/F United Centre 95 Queensway Hong Kong

Tel (852) 2277 6600 Fax: (852) 2868 5307

[www.phillip.com.hk](http://www.phillip.com.hk)

**JAPAN**
**Phillip Securities Japan, Ltd**

4-2 Nihonbashi Kabutocho, Chuo-ku  
Tokyo 103-0026

Tel: (81) 3 3666 2101 Fax: (81) 3 3664 0141

[www.phillip.co.jp](http://www.phillip.co.jp)

**INDIA**
**PhillipCapital (India) Private Limited**

No. 1, 18th Floor, Urmi Estate, 95 Ganpatrao Kadam Marg,  
Lower Parel West, Mumbai 400013

Tel: (9122) 2300 2999 Fax: (9122) 6667 9955

[www.phillipcapital.in](http://www.phillipcapital.in)

**UNITED KINGDOM**
**King & Shaxson Ltd.**

6th Floor, Candlewick House, 120 Cannon Street  
London, EC4N 6AS

Tel (44) 20 7929 5300 Fax: (44) 20 7283 6835

[www.kingandshaxson.com](http://www.kingandshaxson.com)

**SRI LANKA**
**Asha Phillip Securities Limited**

Level 4, Millennium House, 46/58 Navam Mawatha,  
Colombo 2, Sri Lanka

Tel: (94) 11 2429 100 Fax: (94) 11 2429 199

[www.ashaphillip.net/home.htm](http://www.ashaphillip.net/home.htm)