

BAIC (1958.HK)

2017H result dropping markedly by 60%, Highlights count on BJ-Benz and NEV

18 September 2017

Hong Kong | Automobile | Update Report

Investment Summary

- 60% Decrease in 2017H Results
- Beijing Mercedes-Benz's doubled profits
- BAIC self-owned brand and Beijing Hyundai all turn gain to loss

Investment Thesis

Judging from the latest sales data, in July, sales volume of Beijing Hyundai and BAIC self-owned brand increased month on month, but we think it is difficult to see a strong rebound in the short term. The strong momentum of Beijing Mercedes-Benz has not diminished, with a sales increase of 48% year on year in July. In terms of new energy vehicles, BAIC self-owned brand, Beijing Hyundai and Beijing Mercedes-Benz have sufficient reserves of new energy models in the low, medium and high fields, aiming to meet the challenges of future new energy market competition.

Semiannual report of the company showed that the result was greatly worse than expected, so we reduced the company's earnings forecast. Earnings per share in 2017/2018 will reach to 0.62/0.84 yuan. We will also reduce target price to 7.62 HKD (10.4/7.7x for 2017/2018 P/E) and rating to careful accumulate.

"One joy" failed to make up for "two worries", with the semi-annual result dropping markedly by 60%

Greatly influenced by its Korean cars sales volume, in the first half of 2017, BAIC net profit decreased dramatically by 59% to RMB986 million, compared to the same period last year. Earnings per share decreased from 0.32 yuan in the same period last year to 0.17 yuan in the first half of 2017.

BAIC's 2017H result

	Note	For the six months ended June 30,	
		2017 (Unaudited) RMB'000	2016 (Unaudited) RMB'000
Revenue	3	66,737,077	49,038,815
Cost of sales		(49,246,393)	(38,284,442)
Gross profit		17,490,684	10,754,373
Selling and distribution expenses		(6,218,675)	(4,554,392)
General and administrative expenses		(2,123,300)	(1,923,452)
Other (losses)/gains, net		(808,910)	(246,757)
Operating profit	6	8,339,799	4,029,772
Finance income		211,903	202,584
Finance costs		(537,745)	(457,307)
Finance costs, net		(325,842)	(254,723)
Share of (loss)/profit of investments accounted for using equity method		(132,300)	1,978,780
Profit before income tax		7,881,657	5,753,829
Income tax expense	7	(2,833,712)	(1,333,568)
Profit for the period		5,047,945	4,420,261
Profits attributable to:			
Equity holders of the Company		985,701	2,411,293
Non-controlling interests		4,062,244	2,008,968
		5,047,945	4,420,261
Earnings per share for profit attributable to equity holders of the Company during the period (RMB)			
Basic and diluted	8	0.13	0.32

Source: Company, Phillip Securities Hong Kong Research

Accumulate (Downgrade)

CMP: HKD 6.95

(Closing price as at 14 Sep 2017)

TARGET: HKD 7.62 (+9.64%)

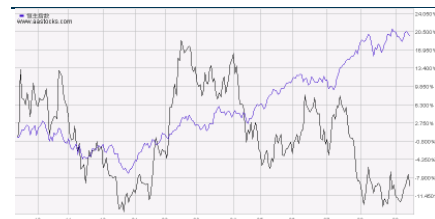
COMPANY DATA

O/S SHARES (MN) :	7595
MARKET CAP (HKD MN) :	14600
52 - WK HI/LO (HKD):	9.5 / 6.41

SHARE HOLDING PATTERN, %

Beijing Automotive Group Co., Ltd	45
Beijing Shougang Co., Ltd	14
Daimler AG	10

PRICE VS. HSI



Source: Phillip Securities (HK) Research

KEY FINANCIALS

CNY mn	12/15	12/16	12/17F	12/18F
Net Sales	84,112	116,199	138,734	163,539
Net Profit	3,319	6,367	4,681	6,393
EPS, CNY	0.44	0.84	0.62	0.84
P/E, x	13.2	7.4	9.5	7.0
BVPS, CNY	4.61	5.29	5.62	6.17
P/BV, x	1.3	1.2	1.0	1.0
DPS (CNY)	0.15	0.29	0.21	0.29
Div. Yield (%)	2.6%	4.7%	3.6%	4.9%

Source: Company reports, Phillip Securities Est.

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During the period, the company's total revenue increased by 36% to 66.738 billion yuan year on year, owing to the 56% increase of Beijing Mercedes-Benz's revenue, which partially offset the 28% decrease of BAIC self-owned brand's revenue.

Beijing Mercedes-Benz's doubled profits

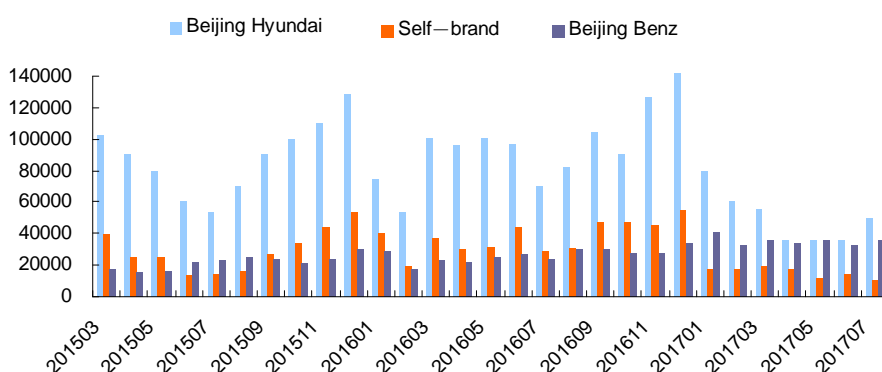
In the first half, Beijing Mercedes-Benz continued its explosive growth, with sales volume increasing by 47% to 211,000 units. Beijing Mercedes-Benz recorded an increase of revenue by 56% to 58.3 billion yuan year on year while its gross margin increased by 4% from 28% to 32%, with the contributed net profit from 2.05 billion yuan in the same period last year doubling to 4.24 billion yuan. Based on monthly sales exceeding 10,000 units in the Benz E level, C level and GLC level SUV, three flagship models, medium-term GLA level SUV also got a good sales result in market. In addition, the increase proportion of higher-priced SUV models and new models lead to positive correction in single vehicle revenue and profit: Price of single vehicle is 276,000 yuan, an increase of 6.5% year on year; profit of single vehicle is 39,000 yuan, a big increase of 41% year on year.

BAIC self-owned brand and Beijing Hyundai all turn gain to loss

However, the other two brands, BAIC self-owned brand and Beijing Hyundai suffered dismal results. Restricted by its weak product power, periodic shift and product mix, sales volume of BAIC self-owned brand in the first half decreased by 45.5% to 111,000 units. Revenue related to BAIC self-owned brand decreased by 29% to 8.4 billion yuan, with fractional gross margin decreasing from 2.3% to -15%. Finally it turned from a profit of 400 million yuan to a loss of 3.26 billion yuan in the same period last year.

Influenced by the market competition and political events between China and South Korea, Korean car sales volume continued its sustained downturn this year. In the first half, Beijing Hyundai sales volume decreased by 42.4% year on year, about 300,000 units. Investment income (mainly from Beijing Hyundai) first turned loss, a record low from a profit of 1.98 billion yuan to a loss of 120 million yuan in the same period last year.

BAIC's monthly sales



Source: Company, Phillip Securities Hong Kong Research

Investment Thesis

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Peer Comparison

排名	代码	证券简称	总市值(亿元)	流通市值(亿元)	市盈率PE			市净率PB(MRQ)
					TTM	17E	18E	
7	1958.HK	北汽汽车	528	146	--	7	5	1
港股(7)								
		中位值	1,154	340	--	9	8	2
1	0175.HK	吉利汽车	1,836	1,836	--	17	13	6
2	2238.HK	广汽集团	1,704	373	--	9	7	2
3	1211.HK	比亚迪股份	1,690	511	--	28	21	3
4	2333.HK	长城汽车	1,203	308	--	9	8	2
5	1114.HK	BRILLIANCE CHI	1,105	1,105	--	18	13	4
6	0489.HK	东风集团股份	874	290	--	5	5	1

Source: Phillip Securities Hong Kong Research

Financials

FYE DEC	FY12	FY13	FY14	FY15	FY16	FY17F	FY18F
Valuation Ratios							
P/E (X), adj.	8.2	11.4	7.8	13.2	7.4	9.5	7.0
P/B (X)	1.8	1.3	1.1	1.3	1.2	1.0	1.0
Dividend Yield (%)	5.4%	5.9%	5.5%	2.6%	4.7%	3.6%	4.9%
Dividend payout ratio (%)	44.1%	66.7%	42.9%	34.3%	34.6%	34.1%	34.4%
Per share data (RMB)							
EPS, reported	0.68	0.48	0.70	0.44	0.84	0.62	0.84
EPS, adj.	0.68	0.48	0.70	0.44	0.84	0.62	0.84
DPS	0.30	0.32	0.30	0.15	0.29	0.21	0.29
BVPS	3.16	4.22	5.20	4.61	5.29	5.62	6.17
Growth & Margins (%)							
Growth							
Revenue	83.7%	263.1%	341.0%	49.2%	38.1%	19.4%	17.9%
EBIT	37.6%	-10.2%	104.3%	20.8%	80.1%	27.5%	22.4%
Net Income, adj.	31.5%	-20.6%	66.2%	-26.4%	91.9%	-26.5%	36.6%
Margins							
Gross margin	-4.8%	3.2%	15.9%	18.2%	22.6%	26.6%	26.5%
EBIT margin	112.0%	27.7%	12.8%	10.4%	13.5%	14.5%	15.0%
Net Profit Margin	97.1%	21.2%	8.0%	3.9%	5.5%	3.4%	3.9%
Key Ratios							
ROE (%)	0.38%	2.58%	1.8%	9.7%	16.9%	11.3%	14.3%
Income Statement (RMB mn)							
Revenue	3,520	12,782	56,370	84,112	116,199	138,734	163,539
Cost of sales	3,688	12,367	47,387	68,835	89,967	101,859	120,152
Gross profit	-168	415	8,983	15,277	26,232	36,875	43,387
Other income and gains	1,856	620	1,540	1,244	189	62	608
Operating expenditure	1,537	3,519	9,101	12,042	14,901	17,664	20,810
Financial costs	158	474	533	416	468	567	639
Profit before tax	3,785	3,065	6,698	8,321	15,269	19,498	23,930
Tax	226	114	857	1,999	3,733	6,434	6,461
Profit for the period	3,478	2,951	5,841	6,322	11,536	13,064	17,469
Minority interests	61	237	1,330	3,003	5,169	8,383	11,075
Net profit	3,417	2,714	4,511	3,319	6,367	4,681	6,393

Source: PSR

(Financial figures as at 14 September 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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