

Yutong (600066.CH)

The NEV bus industry has gradually warmed up, with a high probability of explosive growth for 2017Q4 result

12 October 2017

China | Automobile | Company Updates

- 2017H1 net profit down by 30% in due to the industry policies interfered

- The gross margin rose by 0.1 pts, and the market share expanded against trend

- The NEV industry has gradually warmed up, with a high probability of explosive growth in 2017Q4

Accumulate (Downgrade)

CMP: CNY 24.85

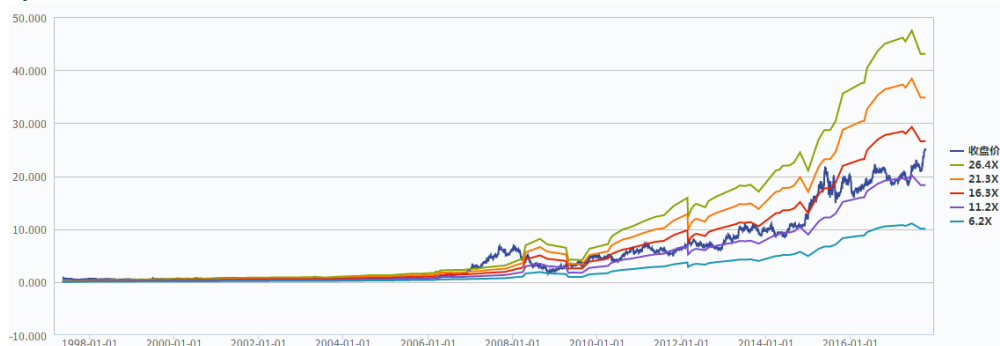
(Closing price as at 10 Oct 2017)

TARGET: CNY 29.00 (+17%)

COMPANY DATA

O/S SHARES (MN) :	2214
MARKET CAP (CNY MN) :	55016
52 - WK HI/LO (CNY):	26.06/ 18.68

P/E Trend



Source: Wind, Phillip Securities Hong Kong Research

SHARE HOLDING PATTERN, %

Yutong Group	37.15
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PRICE VS. SHCOMP



Source: Phillip Securities (HK) Research

Investment Thesis

We forecast that the company's EPS in 2017/2018 will be RMB1.87 and RMB2.13. Considering the leading position and its continued technological advancement in new energy vehicles to drive down costs and broaden its market, our target price is set unchanged at RMB29. It is equivalent to a prospective 2017/2018 PE of 15.5x and 13.6x respectively. We give "Accumulate" rating. (Closing price as at 10 Oct 2017)

Quick-frozen industry interfered by policies and decrease in net profit of the company by 30% in H1

Yutong Bus recorded a total revenue of RMB9.31 billion in H1 2017, down by 30% YoY; the net profit attributable to the parent company stood at RMB810 million, down by 34.8% YoY. Basic EPS was RMB0.36, compared with RMB0.56 in the same period last year. EPS in Q1 and Q2 were RMB0.14 and RMB0.22, respectively.

Influenced by multiple adjustments of subsidies for new energy passenger vehicles, including investigations on subsidy defrauding, state subsidy fall-off and local subsidy lagging behind, China's new energy passenger vehicles industry has been quick-frozen in the first half of the year. Sales of new energy passenger vehicles have basically stagnated. The main growth engine of Yutong Bus has been sharply stalled in recent years, with semi-annual cumulative sales down by 28% YoY to 2.18 million units. According to the Ministry of Industry and Information Technology, the number of new energy passenger vehicles produced by Yutong Bus in H1 was down by nearly 60% YoY.

KEY FINANCIALS

CNY mn	FY15	FY16	FY17E	FY18E
Net Sales	31211	35850	36705	38903
Net Profit	3535	4009	4424	4424
EPS, CNY	1.60	1.83	1.87	2.13
P/E, x	15.6	13.6	13.3	11.7
BVPS, CNY	5.81	6.14	7.05	8.06
P/BV, x	4.3	4.1	3.5	3.1
DPS (CNY)	1.50	1.00	1.20	1.45
Div. Yield (%)	6.0%	4.0%	4.8%	5.8%

Source: Company reports, Phillip Securities Est.

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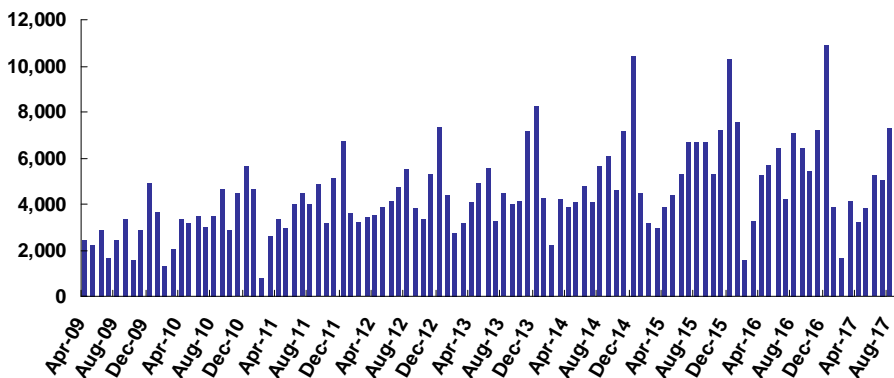
The gross margin rose by 0.1 pts, and the market share expanded against trend

The sales volumes of large, medium and light passenger vehicles of Yutong Bus fell by 7.5%, 40% and 15% YoY to 8,751, 9,947, and 3,136 units, respectively. Due to the increase in the proportion of large passenger vehicles, the gross margin of the Company was 24.9% in the first half of the year, up by 0.1 pts YoY, while the gross margins in 1Q and 2Q were 24% and 25.6%, respectively. The Company's export sector has performed well, with the volume of exported passenger vehicles up by 17% YoY to 4,356 units.

The adjustment of state subsidies for new energy passenger vehicles has raised the industry threshold, and accelerated the industry clearing. The market concentration of the industry leaders such as Yutong Bus has been significantly improved. The Company's share of vehicle models in the range of 10 meters above, 8 to 10 meters and 6 to 8 meters reached 18.5%, 40% and 12%, respectively. The market share is up by 1.7, 9.3 and 9.5 pts, respectively, from Year 2016.

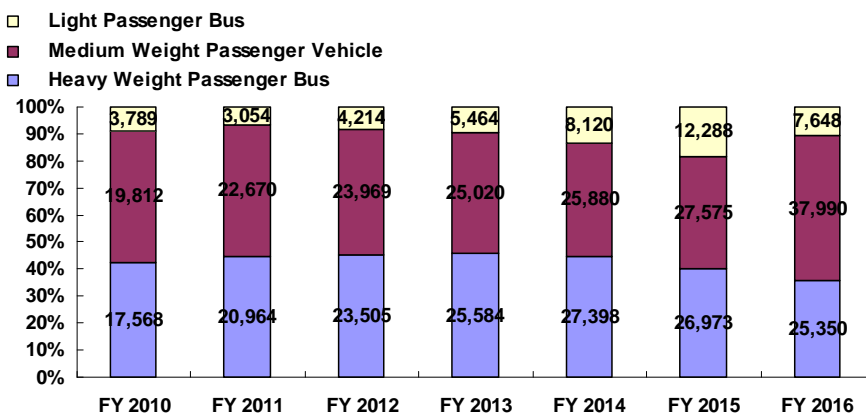
The period cost rate rose by 2.1 pts, mainly due to the rigidity of administration expenses and the delayed grant of state subsidies. During the reporting period, the Company spent RMB505 million on R&D, up by 11% YoY, mainly for such cutting-edge technology as development and optimization of high-end models, new energy buses, lightweight technology and intelligent driving and fuel cells.

Yutong monthly sales



Source: Company, Phillip Securities Hong Kong Research

Sales breakdown by Segments



Source: Company, Phillip Securities Hong Kong Research

The new energy passenger vehicle industry has gradually warmed up, with a high probability of explosive growth in the fourth quarter

With the end of the policy vacuum, the new energy passenger vehicle industry has gradually warmed up. The sales volume of Yutong Bus started to soar from June. In the new edition of the subsidy catalogue, Yutong Bus has obtained subsidy eligibility for 91 new energy passenger vehicles and 3 new energy special vehicles. The bidding for new energy vehicles for all the public transport companies is being fully restarted. We anticipate Yutong Bus will usher in a period of explosive growth of new energy vehicle orders in the fourth quarter.

Financials

FYE DEC	FY13	FY14	FY15	FY16	FY17F	FY18F
Valuation Ratios						
P/E (X), adj.	24.3	21.1	15.6	13.6	13.3	11.7
P/B (X)	5.8	5.1	4.3	4.1	3.5	3.1
Dividend payout ratio(%)	48.9%	84.7%	93.9%	54.8%	64.3%	68.2%
Dividend Yield (%)	2.0%	4.0%	6.0%	4.0%	4.8%	5.8%
Per share data (RMB)						
EPS, (Basic)	1.78	1.77	1.60	1.83	1.87	2.13
EPS, (Diluted)	1.02	1.18	1.60	1.83	1.87	2.13
DPS	0.50	1.00	1.50	1.00	1.20	1.45
BVPS	4.30	4.91	5.81	6.14	7.05	8.06
Growth & Margins (%)						
Growth						
Revenue	12.3%	15.9%	21.3%	14.9%	2.4%	6.0%
EBIT	31.9%	31.6%	25.1%	29.6%	-3.5%	9.2%
Net Income, adj.	46.1%	15.4%	35.3%	13.4%	10.4%	0.0%
Margins						
Gross margin	23.1%	24.3%	25.3%	27.8%	26.8%	27.0%
EBIT margin	10.7%	12.1%	12.5%	14.1%	13.3%	13.7%
Net Profit Margin	10.2%	10.2%	11.3%	11.2%	12.1%	11.4%
Key Ratios						
ROE	24.5%	25.6%	29.8%	30.6%	28.3%	28.1%
Income Statement (RMB mn)						
Revenue	22198	25728	31211	35850	36705	38903
Gross profit	5122	6247	7905	9974	9833	10515
EBIT	2373	3122	3906	5061	4881	5330
Profit before tax	2619	3051	4104	4782	4877	5560
Tax	328	398	517	680	683	778
Profit for the period	2291	2652	3588	4102	4194	4782
Minority interests	28	40	52	59	62	75
Total capital share	1274	1477	2214	2214	2214	2214
Net profit	2263	2612	3535	4009	4424	4424

Source: PSR

(Financial figures as at 10 October 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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