

BAIC (1958.HK)

The Divestment of Self-Owned Brands and the Issuance of A-shares Lead to the Longing of Revaluation

Hong Kong | Automobile | Update Report

12 January 2018

Investment Summary

- Over 35% Decrease in Profit in the Third Quarter
- Beijing Benz Keeps a Strong Momentum
- Assured Quantity with Reduced Price, Beijing Hyundai Stepped out of the Bottom
- The Divestment of Self-Owned Brands and the Issuance of A-shares Lead to the Longing of Revaluation

Accumulate (Maintain)

CMP: HKD 11.02

(Closing price as at 10 Jan 18)

TARGET: HKD 12.10 (+9.8%)

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	
6	1958.HK	北京汽车	837.0	231.5	16.1	16.1	10.2	1.7
中位值			1,099.9	352.3	14.0	16.1	10.2	2.0
1	0175.HK	吉利汽车	2,395.2	2,395.2	27.5	20.9	15.6	7.4
2	1211.HK	比亚迪股份	2,058.0	630.0	40.2	37.2	28.3	2.9
3	2238.HK	广汽集团	1,910.5	411.7	12.0	10.0	7.9	2.2
4	2333.HK	长城汽车	1,180.7	292.9	11.8	12.4	8.5	1.6
5	1114.HK	BRILLIANCE CH	1,019.1	1,019.1	21.1	16.1	10.6	3.3
7	0489.HK	东风集团股份	811.6	269.0	5.2	4.9	4.7	0.7

Source: Phillip Securities Hong Kong Research

COMPANY DATA

O/S SHARES (MN) :	7595
MARKET CAP (HKD MN) :	23150
52 - WK HI/LO (HKD):	11.06 / 6.41

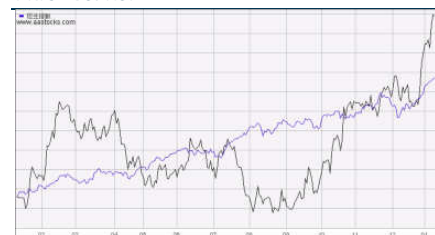
SHARE HOLDING PATTERN, %

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

Investment Thesis

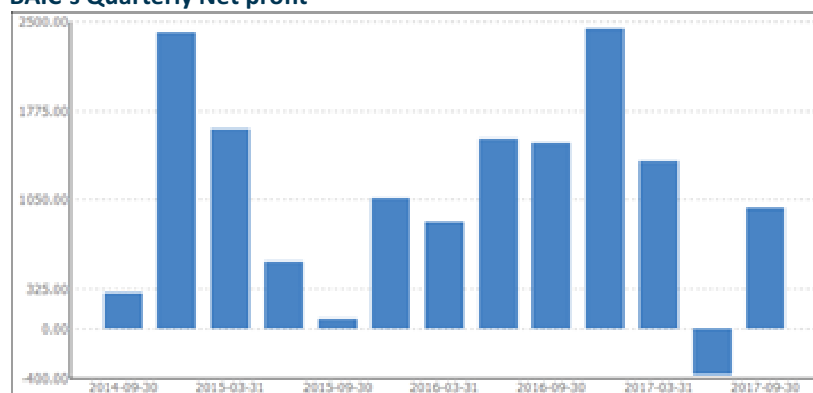
The third quarterly results of the Company improved on a sequential basis, but the substantial decline in the whole year was hard to avoid. However, the partial divestiture of the self-owned brands and the issuance of the A shares plan are expected to boost the 2018 performance, so we lower the profit forecast of the Company in 2017, and raise the profit forecast of the Company in 2018 to EPS of RMB0.51/0.93. We will also revise target price to 12.1 HKD (19.6/10.8x for 2017/2018 P/E) and reaffirm accumulate rating. (Closing price as at 10 Jan 18)

PRICE VS. HSI



Source: Phillip Securities (HK) Research

BAIC's Quarterly Net profit



Source: Company, Phillip Securities Hong Kong Research

KEY FINANCIALS

CNY mn	12/15	12/16	12/17F	12/18F
Net Sales	84112	116199	138712	162427
Net Profit	3319	6367	3894	7064
EPS, CNY	0.44	0.84	0.51	0.93
P/E, x	20.9	11.7	17.8	9.8
BVPS, CNY	4.61	5.29	5.51	6.21
P/BV, x	2.0	1.9	1.7	1.5
DPS (CNY)	0.15	0.29	0.16	0.32
Div. Yield (%)	1.6%	3.0%	1.7%	3.5%

Source: Company reports, Phillip Securities Est.

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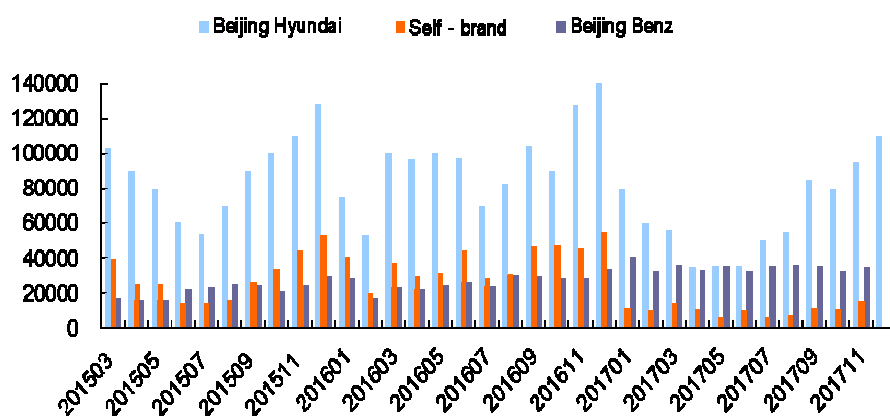
Over 35% Decrease in Profit in the Third Quarter

BAIC Motor released its performance report for the first three quarters under the Chinese accounting standard. It is shown that in the first three quarters of 2017 the Company's revenue increased by 23.6% yoy to RMB104,066 million while net profit attributable dropped by 50% yoy to RMB1.97 billion, and performance deterioration was better than that of 60% decline in H1. Among them, the third quarter revenue increased by 1.4% to RMB31.18 billion, while net profit attributable decreased by 35% yoy to RMB980 million.

Beijing Benz Keeps a Strong Momentum

In the third quarter, the profit contributed by Beijing Benz hit a new record of more than RMB2.6 billion after it was listed on the market. In the first 11 months of this year, Beijing Benz sold a total of 380,000 vehicles, an increase of 35% yoy, and it is estimated that the annual sales volume will exceed 420,000 units with an increase of 32.4% yoy. Currently, Beijing Benz has a total of four vehicle models including C-class sedan, E-class sedan, GLA SUV and GLC SUV. In the future, with the official operation Phase II of Beijing Benz Engine Plant, the production capacity of its engine and vehicle will be raised to 900,000 units and 700,000 units, respectively, and the vehicle production capacity will increase by 75%. In 2018, Beijing Benz will put into production of the GLC long-wheelbase SUV, launch a brand-new A-class 3-car sedan and mid-life cycle modified C-class sedan, and the domestic production of the new GLB SUV is also under implementation. In addition, Beijing Benz will put into production a new generation of 1.3T engine to replace the current 1.6T engine, further reducing the product threshold to expand consumer coverage. Although the base number is raised, we expect Beijing Benz to still maintain a relatively fast growth rate in 2018.

BAIC's monthly sales



Source: Company, Phillip Securities Hong Kong Research

Assured Quantity with Reduced Price, Beijing Hyundai Stepped out of the Bottom

Affected by the intensifying market competition and the political event between China and Korea, in 2017, the annual sales volume of Beijing Hyundai dropped by about 30% yoy to nearly 820,000. However, with the political impact fading away gradually, and moves such as a series of price promotions and new car introduction, the monthly sales volume of Beijing Hyundai has risen from c 40,000 units in the second quarter to 100,000 units in the fourth quarter. Since 2017 H2, Beijing Hyundai has been launching the four models of new Verna, new Sonata, the new ix25 and the new generation of ix35 to fully cover the three key market segments of Crossover+D+SUV, and the official price of the new ix35 entry-level model reduced by RMB30,000, dropping to the price range of high-end self-owned brands. According to the plan, in 2018, Beijing Hyundai will launch three new models including the small

SUV-ENCINO, and several modified models and new energy vehicles such as the all-new Sonata PHEV / Elantra PHEV. We expect that Beijing Hyundai will continue to face some challenges from high-end self-owned brands in the future and its brand profitability will be pressed. However, the loss that occurred in 2017 H1 will be difficult to reproduce.

The Divestment of Self-Owned Brands and the Issuance of A-shares Lead to the Longing of Revaluation

According to media reports, the parent company BAIC Group has recently announced that it will divest Weiwang, its self-owned sub-brand to BAIC Changhe. Weiwang mainly produces some low-end cross passenger cars (also known as micro-cars), SUVs and MPVs. Its positioning is below the Shenbao sub-brand, and its cumulative sales in the first 11 months of 2017 decreased by 54% yoy to 75,000 units, accounting for 40% among BAIC self-owned brands. The divestment of Weiwang will help BAIC reduce revenue losses of its self-owned brands of at least RMB2 billion in 2018.

Earlier, the Company had announced that it planned to issue new A-shares of no more than RMB485 million, equivalent to 6.0% of the enlarged total share capital. The net raised funds will be used to upgrade its production base, expand production capacity, replenish working capital and repay bank debts. As A shares enjoy a higher valuation premium than H shares, we think this move is expected to significantly increase the Company's intrinsic value and enhance its capital strength.

Financials

FYE DEC	FY13	FY14	FY15	FY16	FY17F	FY18F
Valuation Ratios						
P/E (X), adj.	18.0	12.4	20.9	11.7	17.8	9.8
P/B (X)	2.1	1.7	2.0	1.9	1.7	1.5
Dividend Yield (%)	3.7%	3.5%	1.6%	3.0%	1.7%	3.5%
Dividend payout ratio (%)	66.7%	42.9%	34.3%	34.6%	31.2%	34.4%
Per share data (RMB)						
EPS, reported	0.48	0.70	0.44	0.84	0.51	0.93
EPS, adj.	0.48	0.70	0.44	0.84	0.51	0.93
DPS	0.32	0.30	0.15	0.29	0.16	0.32
BVPS	4.22	5.20	4.61	5.29	5.51	6.21
Growth & Margins (%)						
Growth						
Revenue	263.1%	341.0%	49.2%	38.1%	19.4%	17.1%
EBIT	-10.2%	104.3%	20.8%	80.1%	26.7%	30.9%
Net Income, adj.	-20.6%	66.2%	-26.4%	91.9%	-38.8%	81.4%
Margins						
Gross margin	3.2%	15.9%	18.2%	22.6%	26.9%	27.5%
EBIT margin	27.7%	12.8%	10.4%	13.5%	14.4%	16.1%
Net Profit Margin	21.2%	8.0%	3.9%	5.5%	2.8%	4.3%
Key Ratios						
ROE (%)	2.58%	1.8%	9.7%	16.9%	9.5%	15.9%
Income Statement (RMB mn)						
Revenue	12782	56,370	84,112	116,199	138,712	162,427
Cost of sales	12367	47,387	68,835	89,967	101,440	117,711
Gross profit	415	8,983	15,277	26,232	37,272	44,716
Other income and gains	620	1,540	1,244	189	62	656
Operating expenditure	3,519	9,101	12,042	14,901	18,216	20,669
Financial costs	474	533	416	468	567	639
Profit before tax	3065	6,698	8,321	15,269	19,372	25,466
Tax	114	857	1,999	3,733	6,393	6,876
Profit for the period	2951	5,841	6,322	11,536	12,979	18,590
Minority interests	237	1,330	3,003	5,169	9,086	11,526
Net profit	2,714	4,511	3,319	6,367	3,894	7,064

Source: PSR

(Financial figures as at 10 January 2018)

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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