

Yutong (600066.CH)

Under New Subsidy Policy, It's Time to Reshuffle and Expand the Industry

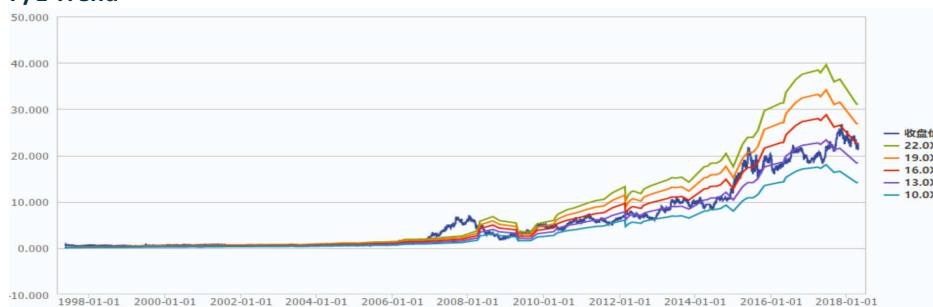
China | Automobile | Company Updates

23 April 2018

Investment Summary

Due to the change of industry policy, Yutong saw net profit of 2017 decreased by above 20% yoy. The shrink NEV subsidy, the lengthened payback period and the price promotion undermined the company's profitability. While the company enlarged its market share and the bad debts will be partially reversed, which is helpful to the bottom-up of the FY2018 result.

P/E Trend



Source: Wind, Phillip Securities Hong Kong Research

Result in 2017 Fell by More Than 20%

Yutong Bus reported revenue of RMB 33.222 billion in 2017, down by 7.33% year on year; net profit attributable to parent company was RMB 3.129 billion, down by 22.62% year on year; earnings per share was RMB 1.41, with a dividend of RMB 0.5 per share. The main reason for the lower-than-expected result was that the bus industry was undermined by the subsidy policy for new energy vehicles. We lowered our target price but maintain the accumulate rating.

Over Depression of the Industry, Market Share Increased Significantly

The Ministry of Finance issued a notice on December 30, 2016, in which the national subsidies for pure electric buses was reduced by RMB 200,000 per vehicle and local subsidy shall not be higher than half of the national subsidy, and there added one application requirement of 30,000 kilometers of operating mileage. Affected by changes in industry policies, the national annual sales of buses of 7 meters or more was 167,588 vehicles, down by 14%. The products of Yutong Bus mainly cover the large- and medium-sized bus markets, and sales were also dragged down, but it was better than the industry average, only falling by 5.24% year on year to 67,268 vehicles. However, the market share increased, occupying 28.8% in the large bus market with an increase of 2.9 ppts; a medium-sized bus market share was 44.2%, increasing by 4.9 ppts; and the market share of large- and medium-sized new energy bus was 28.3%, increasing by 3.4 ppts.

Sales up and Profit down in the Fourth Quarter

Since 2013, due to the special nature of the new energy vehicle industry, the fourth quarter was apparently the peak season, so that net profit produced in the fourth quarter of Yutong Bus took up half of the whole year's result on average. In 2017, due to sluggish sales in the first three quarters, the company carried out more aggressive promotional activities in the last quarter in order to complete sales targets set up at the beginning of the year, which resulted in reduced profitability. On the basis of an increase of 12% in sales in the fourth quarter, the net profit fell by 31% year on year. Gross margin for the year was 26.32%, down by 1.5 ppts year on year.

Accumulate (Maintain)

CMP: CNY 21.65

(Closing price as at 19 April 2018)

TARGET: CNY 25.00 (+15%)

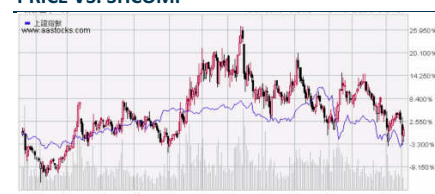
COMPANY DATA

O/S SHARES (MN) :	2214
MARKET CAP (CNY MN) :	47932
52 - WK HI/LO (CNY):	27.26/ 18.68

SHARE HOLDING PATTERN, %

Yutong Group	37.2
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PRICE VS. SHCOMP



Source: Phillip Securities (HK) Research

KEY FINANCIALS

CNY mn	FY16	FY17	FY18E	FY19E
Net Sales	35850	33222	34503	36486
Net Profit	4044	3129	3816	4199
EPS, CNY	1.83	1.41	1.72	1.90
P/E, x	11.8	15.3	12.6	11.4
BVPS, CNY	6.14	7.00	8.48	9.27
P/BV, x	3.5	3.1	2.6	2.3
DPS (CNY)	1.00	0.50	0.80	0.95
Div. Yield (%)	4.6%	2.3%	3.7%	4.4%

Source: Company reports, Phillip Securities Est.

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Three Fees Rose

The 30,000-kilometre application condition has lengthened the payback period of state-subsidy funds repayment of receivables of the company, which has had a significant impact on the company's funds and accounts receivable. The company's interest expenses in 2017 were RMB 333 million, increasing enormously by 279% compared to that of RMB 88 million in the same period of the previous year, consequently the financial expenses increased by 79% to RMB 490 million; while the provision for bad debts of accounts receivable amounted to RMB 507 million, increasing by 40.44% compared with that of RMB 361 million in the same period of the previous year. The final net profit margin turned out to be 9.54%, decreasing by 1.9 ppts year on year. However, with the application condition reduced to 20,000 kilometers in 2018, the payback period of state-subsidy funds repayment of the company is expected to be shortened, bad debts will be partially reversed and financial pressure will be eased. In a word, the result in 2018 is expected to pick up.

Under New Subsidy Policy, It's Time to Reshuffle and Expand the Industry

In 2018, the further adjustment to the national new energy passenger vehicle subsidy policy will push up the entry of the industry, accelerate the survival of the fittest, and the industry structure will continue to be optimized, which will benefit industry leaders such as Yutong Bus to continue to expand market share.

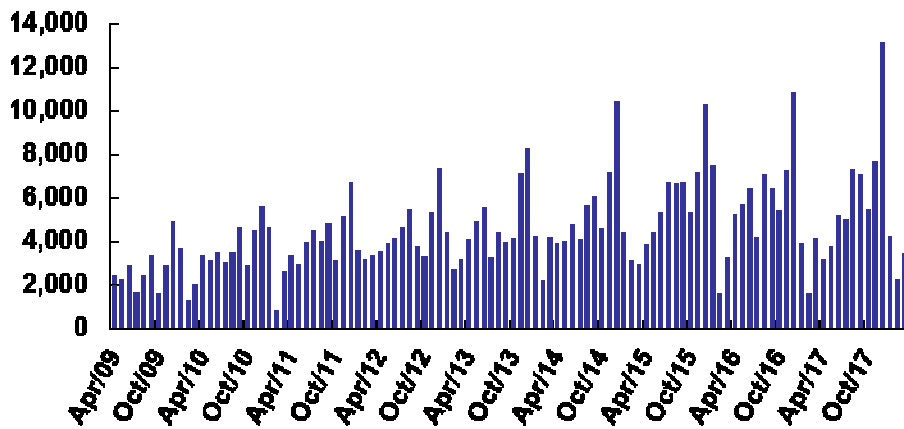
In terms of technology, the company's core technologies such as energy saving are in a leading position. The core technologies including finished vehicle safety and control technology, finished vehicle lightweight technology, and vehicle networking service platform have made breakthroughs, greatly improving the product competitiveness. And compared with 2016, energy consumption of finished vehicle is reduced by more than 5% on average. The overseas projects of high-end products proceeded smoothly. In 2017, the company's new energy bus exports increased by 18% year on year to 8,142. Compared with foreign counterparts, the company's new energy products have significant technological maturity and scale advantages, and have already passed local certification. With brand and technology advantages, the future is well expected.

Investment Thesis

In general, the product unit price in 2018 may continue to be under pressure; however, with the further optimization of the industry structure and the test of time, companies with strong technical strength, high product quality, and comprehensive cost-effectiveness will take a leading position in the new energy bus market in the future. In addition, overseas markets are also expected to be beneficial to the growth of the company's result.

We forecast that the company's EPS in 2018/2019 will be RMB1.72 and RMB1.9, our target price is set unchanged at RMB25. It is equivalent to a prospective 2018/2019 PE of 14.5x and 13.2x respectively. We give "Accumulate" rating. (Closing price as at 19 April 2018)

Yutong monthly sales



Source: Company, Phillip Securities Hong Kong Research

Financials

FYE DEC	FY15	FY16	FY17	FY18F	FY19F
Valuation Ratios					
P/E (X), adj.	13.6	11.9	15.3	12.6	11.4
P/B (X)	3.7	3.5	3.1	2.6	2.3
Dividend payout ratio(%)	93.9%	54.8%	35.4%	46.4%	50.1%
Dividend Yield (%)	6.9%	4.6%	2.3%	3.7%	4.4%
Per share data (RMB)					
EPS, (Basic)	1.60	1.83	1.41	1.72	1.90
EPS, (Diluted)	1.60	1.83	1.41	1.72	1.90
DPS	1.50	1.00	0.50	0.80	0.95
BVPS	5.81	6.14	7.00	8.48	9.27
Growth & Margins (%)					
Growth					
Revenue	21.3%	14.9%	-7.3%	3.9%	5.7%
EBIT	25.1%	29.6%	-23.2%	11.3%	10.0%
Net Income, adj.	35.3%	14.4%	-22.6%	22.0%	10.0%
Margins					
Gross margin	25.3%	27.8%	26.3%	27.0%	27.3%
EBIT margin	12.5%	14.1%	11.7%	12.5%	13.0%
Net Profit Margin	11.3%	11.3%	9.4%	11.1%	11.5%
Key Ratios					
ROE	29.8%	30.6%	21.5%	22.3%	21.4%
Income Statement (RMB mn)					
Revenue	31211	35850	33222	34503	36486
Gross profit	7905	9974	8743	9316	9961
EBIT	3906	5061	3885	4326	4758
Profit before tax	4104	4782	3636	4465	4926
Tax	517	680	468	598	660
Profit for the period	3588	4102	3168	3866	4266
Minority interests	52	59	39	50	67
Total capital share	2214	2214	2214	2214	2214
Net profit	3535	4044	3129	3816	4199

Source: PSR

(Financial figures as at 19 April 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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