

# BAIC (1958.HK)

## Korea brand car is recovering

Hong Kong | Automobile | Update Report

19 JUNE 2018

### Investment Thesis

Given all mentioned conservative opinion on BAIC's self-owned brand, neutral view of Beijing Hyundai and optimistic expectation of Beijing Benz, we lower the profit forecast of the company in 2018/2019 to EPS of RMB 0.83 / 1.23. We will also revise target price to 9.3 HKD (9/6.1x for 2018/2019 P/E) and reaffirm accumulate rating. (Closing price as at 14 June 2018)

### 60% decline in 2017 while soar of 17.5% in Q1 2018

According to the result report of BAIC in Q1 2018, the company's revenue increased to RMB39.8 billion, up 9.3% yoy and its net profit attributable increased to RMB1,595 million, up 17.5% yoy, reporting a significant mom improvement from RMB284 million in Q4 2017. EPS was RMB0.21.

Looking back to 2017, with downturn of Beijing Hyundai and self-owned brands, the results of BAIC basically showed the trend of decline quarter by quarter and recorded quarterly net profit of RMB1,358 million, -RMB372 million, RMB983 million, and RMB284 million, respectively. Net profit in the year decreased to RMB2,253 million, down 65% yoy, with an EPS of RMB0.3, which was lower than expected and the main reasons were that losses of fair value of forex forward contracts were beyond expectations and revenue and investment income were lower than expected.

### Beijing Benz maintained robust growth momentum

In 2017, Beijing Benz's gross profit contributions increased to approximately RMB38.2 billion, up 50% yoy, accounting for 146% of the overall gross profit, which was mainly due to the rises in both quantity and price driven by strong product cycle. Its sales volume increased to 422,558 units, up 33.3% yoy and the gross margin increased to 32.7%, up nearly 3ppts.

Since the beginning of 2018, the strong momentum of Beijing Benz has not diminished, with a total sales volume of nearly 127,000 units in Q1, representing a yoy increase of 16%. Specifically, Benz C-Class exceeded BMW 3 series and Audi A4, with a sales volume of 41,455 units in Q1, up 23% yoy and Benz E-Class increased to 37,577 units, up 41% yoy. In the first four months, except being outstripped by BMW in February, Benz topped in the domestic luxury car market in the other three months. In 2018, in terms of new models, Beijing Benz will launch GLC-L and mid-life cycle modified C-class sedan and put into production a new generation of 1.3T engine, and the domestic production of the new GLB SUV is also under implementation.

In the domain of new energy vehicles, Beijing Benz announced it will transform all its vehicle products to HEV or EV before 2022 and increase at least 50 brand-new electric vehicle models. In February this year, Beijing Benz purchased a part of idle capacity of BAIC in Shunyi and Beijing Benz's capacity of the new energy vehicle will be greatly expanded. To be specific, the capacity will increase by 150,000 units in the first phase and increase to more than 300,000 units in the future. It is expected that the first full electric SUV model will be released at the end of 2019/at the beginning of 2020 and electric vehicle product mix including EQA will be launched successively.

Based on the aforesaid two points, we expect Beijing Benz to still maintain a fast growth rate.

### Accumulate (Maintain)

CMP: HKD 8.49

(Closing price as at 14 June 2018)

TARGET: HKD 9.30 (+9.5%)

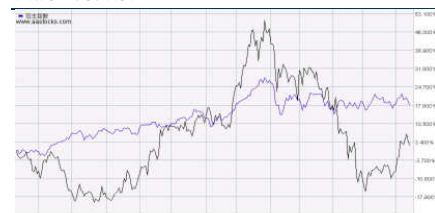
#### COMPANY DATA

O/S SHARES (MN) :	8105
MARKET CAP (HKD MN) :	21401
52 - WK HI/LO (HKD):	12.58 / 6.41

#### SHARE HOLDING PATTERN, %

Beijing Automotive Group Co., Ltd	42.6
Beijing Shougang Co., Ltd	12.83
Daimler AG	9.55

#### PRICE VS. HSI



Source: Phillip Securities (HK) Research

#### KEY FINANCIALS

CNY mn	12/15	12/16	12/17F	12/18F
Net Sales	116199	134159	145427	169649
Net Profit	6367	2253	6749	9976
EPS, CNY	0.84	0.30	0.83	1.23
P/E, x	9.0	23.8	8.3	5.6
BVPS, CNY	5.29	5.38	5.90	6.47
P/BV, x	1.4	1.3	1.2	1.1
DPS (CNY)	0.29	0.10	0.28	0.41
Div. Yield (%)	3.8%	1.4%	4.1%	6.0%

Source: Company reports, Phillip Securities Est.

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

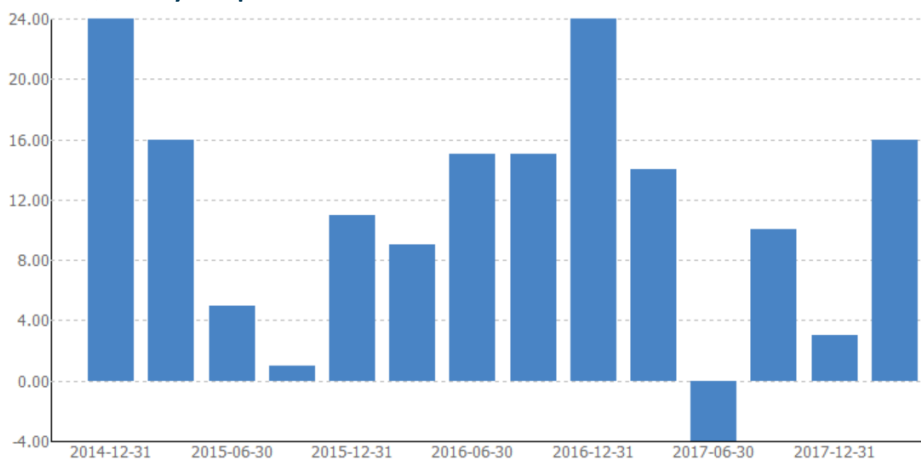
### Recovery in sales volume of Beijing Hyundai

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 approximately 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 40,000 units in the second quarter to 100,000 units in the fourth quarter. In the first five months of 2018, the total sales volume of Beijing Hyundai exceeded 330,000 units, up 27% compared with the same period of last year and has recovered to the level with the same period in 2016, so it is highly probable it will turn losses into gains in the whole year.

### BAIC's self-owned brand seeking to live on by break an arm

In 2017, BAIC's self-owned brands sold 236,000, down 48.4% yoy, with more than RMB6.3 billion of losses. From the perspective of the sales volume in 2018, BAIC's self-owned brand has not turned the tide. The company took measures to divest of loss-making assets, including transferring idle capacity to record a book profit of RMB1 billion and divesting of its low-end sub-brand Weiwang. We expect that the self-owned brand will stay in the red in 2018, but its burden on the company will be decreased.

### BAIC's Quarterly Net profit



Source: Company, Phillip Securities Hong Kong Research

### Peer Comparison

排名	代码	证券简称	总市值(十亿元)	流通市值(十亿元)	市盈率PE			市净率PB(MRQ)
					TTM	18E	19E	
7	1958.HK	北京汽车	68.05	21.40	--	8.13	5.98	1.23
		最高值	210.52	210.52	--	27.81	22.60	5.11
		中位值	88.39	26.36	--	8.13	5.98	1.13
1	0175.HK	吉利汽车	210.52	210.52	--	11.78	8.84	5.11
2	1211.HK	比亚迪股份	156.97	47.85	--	27.81	22.60	2.08
3	2238.HK	广汽集团	142.23	27.27	--	5.23	4.43	0.98
4	2333.HK	长城汽车	100.02	22.44	--	6.81	5.81	1.03
5	0489.HK	东风集团股份	76.77	25.44	--	4.30	4.11	0.59
6	1114.HK	BRILLIANCE CHI	74.27	74.27	--	8.73	6.73	2.34

Source: Wind, Phillip Securities Hong Kong Research

## Financials

FYE DEC	FY14	FY15	FY16	FY17	FY18F	FY19F
<b>Valuation Ratios</b>						
P/E (X), adj.	9.6	16.1	9.0	23.8	8.3	5.6
P/B (X)	1.3	1.5	1.4	1.3	1.2	1.1
Dividend Yield (%)	4.5%	2.1%	3.8%	1.4%	4.1%	6.0%
Dividend payout ratio (%)	42.9%	34.3%	34.6%	33.7%	33.6%	33.3%
<b>Per share data (RMB)</b>						
EPS, reported	0.70	0.44	0.84	0.30	0.83	1.23
EPS, adj.	0.70	0.44	0.84	0.30	0.83	1.23
DPS	0.30	0.15	0.29	0.10	0.28	0.41
BVPS	5.20	4.61	5.29	5.38	5.90	6.47
<b>Growth &amp; Margins (%)</b>						
<b>Growth</b>						
Revenue	341.0%	49.2%	38.1%	15.5%	8.4%	16.7%
EBIT	104.3%	20.8%	80.1%	11.1%	44.0%	21.1%
Net Income, adj.	66.2%	-26.4%	91.9%	-64.6%	199.6%	47.8%
<b>Margins</b>						
<b>Gross margin</b>	<b>15.9%</b>	<b>18.2%</b>	<b>22.6%</b>	<b>26.5%</b>	<b>26.8%</b>	<b>28.6%</b>
EBIT margin	12.8%	10.4%	13.5%	13.0%	17.3%	18.0%
Net Profit Margin	8.0%	3.9%	5.5%	1.7%	4.6%	5.9%
<b>Key Ratios</b>						
ROE (%)	15.82%	9.7%	16.9%	5.6%	15.5%	20.2%
ROA (%)	4.6%	2.8%	4.3%	1.3%	3.9%	5.2%
<b>Income Statement (RMB mn)</b>						
<b>Revenue</b>	<b>56,370</b>	<b>84,112</b>	<b>116,199</b>	<b>134,159</b>	<b>145,427</b>	<b>169,649</b>
<b>Cost of sales</b>	<b>47,387</b>	<b>68,835</b>	<b>89,967</b>	<b>98,659</b>	<b>106,438</b>	<b>121,163</b>
Gross profit	8,983	15,277	26,232	35,499	38,989	48,486
Other income and gains	1,540	1,244	189	-1,055	2,497	697
Operating expenditure	9,101	12,042	14,901	16,926	17,655	20,400
<b>Financial costs</b>	<b>533</b>	<b>416</b>	<b>468</b>	<b>448</b>	<b>503</b>	<b>578</b>
Profit before tax	6,698	8,321	15,269	17,036	24,668	29,914
<b>Tax</b>	<b>857</b>	<b>1,999</b>	<b>3,733</b>	<b>6,038</b>	<b>6,907</b>	<b>8,226</b>
Profit for the period	5,841	6,322	11,536	10,998	17,761	21,688
<b>Minority interests</b>	<b>1,330</b>	<b>3,003</b>	<b>5,169</b>	<b>8,746</b>	<b>11,012</b>	<b>11,711</b>
<b>Net profit</b>	<b>4,511</b>	<b>3,319</b>	<b>6,367</b>	<b>2,253</b>	<b>6,749</b>	<b>9,976</b>

Source: PSR

(Financial figures as at 14 June 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

**GENERAL DISCLAIMER**

This publication is prepared by Phillip Securities (Hong Kong) Ltd ("Phillip Securities"). By receiving or reading this publication, you agree to be bound by the terms and limitations set out below.

This publication shall not be reproduced in whole or in part, distributed or published by you for any purpose. Phillip Securities shall not be liable for any direct or consequential loss arising from any use of material contained in this publication.

The information contained in this publication has been obtained from public sources which Phillip Securities has no reason to believe are unreliable and any analysis, forecasts, projections, expectations and opinions (collectively the "Research") contained in this publication are based on such information and are expressions of belief only. Phillip Securities has not verified this information and no representation or warranty, express or implied, is made that such information or Research is accurate, complete or verified or should be relied upon as such. Any such information or Research contained in this publication is subject to change, and Phillip Securities shall not have any responsibility to maintain the information or Research made available or to supply any corrections, updates or releases in connection therewith. In no event will Phillip Securities be liable for any special, indirect, incidental or consequential damages which may be incurred from the use of the information or Research made available, even if it has been advised of the possibility of such damages.

Any opinions, forecasts, assumptions, estimates, valuations and prices contained in this material are as of the date indicated and are subject to change at any time without prior notice.

This material is intended for general circulation only and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. The products mentioned in this material may not be suitable for all investors and a person receiving or reading this material should seek advice from a financial adviser regarding the suitability of such products, taking into account the specific investment objectives, financial situation or particular needs of that person, before making a commitment to invest in any of such products.

This publication should not be relied upon as authoritative without further being subject to the recipient's own independent verification and exercise of judgment. The fact that this publication has been made available constitutes neither a recommendation to enter into a particular transaction nor a representation that any product described in this material is suitable or appropriate for the recipient. Recipients should be aware that many of the products which may be described in this publication involve significant risks and may not be suitable for all investors, and that any decision to enter into transactions involving such products should not be made unless all such risks are understood and an independent determination has been made that such transactions would be appropriate. Any discussion of the risks contained herein with respect to any product should not be considered to be a disclosure of all risks or a complete discussion of such risks.

Nothing in this report shall be construed to be an offer or solicitation for the purchase or sale of a security. Any decision to purchase securities mentioned in this research should take into account existing public information, including any registered prospectus in respect of such security.

**Disclosure of Interest**

Analyst Disclosure: Neither the analyst(s) preparing this report nor his associate has any financial interest in or serves as an officer of the listed corporation covered in this report.

Firm's Disclosure: Phillip Securities does not have any investment banking relationship with the listed corporation covered in this report nor any financial interest of 1% or more of the market capitalization in the listed corporation. In addition, no executive staff of Phillip Securities serves as an officer of the listed corporation.

**Availability**

The information, tools and material presented herein are not directed, intended for distribution to or use by, any person or entity in any jurisdiction or country where such distribution, publication, availability or use would be contrary to the applicable law or regulation or which would subject Phillip Securities to any registration or licensing or other requirement, or penalty for contravention of such requirements within such jurisdiction.

Information contained herein is based on sources that Phillip Securities (Hong Kong) Limited ("PSHK") believed to be accurate. PSHK does not bear responsibility for any loss occasioned by reliance placed upon the contents hereof. PSHK (or its affiliates or employees) may have positions in relevant investment products. For details of different product's risks, please visit the Risk Disclosures Statement on <http://www.phillip.com.hk>.

© 2018 Phillip Securities (Hong Kong) Limited

**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)