

SAIC Motor (600104.CH)

Production and sales growth are expected to improve in H2

China | Automobile | Company Update

26 July 2019

Investment Summary

SAIC 2019H1 sales volume reached 29,370 thousand units, a decrease of 16.62% yoy. due to the enhanced promotion of cars, SAIC-GM enjoyed a sound performance, with relief in decline; SAIC Volkswagen/SAIC Passenger Vehicle continued to decline, but with recovery at their retail ends; and SGM-Wuling still remained under pressure. We believe that joint venture brands in the strong product cycle, e.g. SVW, will serve as the major support for the maintenance of stable company result and excellence over the industrial averages. Given that the prosperity of the industry remains sluggish and the auto market is under great price reduction pressure, the expansion of the Company's self-brands is likely to encounter challenges.

Domestic auto market encountered downturn and the Company's sales were under pressure in 2019 H1

Affected by slowing growth of macro economy, trade friction between China and USA, drop of consumer confidence and other factors, the domestic auto market has remained in downturn since 2019. In H1, the wholesale volume of domestic passenger vehicles dropped by 14% yoy, and the switch from National Standard V to VI and brewing incentive auto policies caused potential consumers to wait and see more cautiously. The auto wholesale volume recorded a double-digit decrease month to month for several consecutive months.

Sales data released by SAIC shows that, in H1 of 2019, the Group recorded a cumulative sales volume of 29,370 thousand vehicles, a decrease of 16.62% yoy. Among them, SAIC Volkswagen sold 919,000 vehicles, a decrease of 9.9% yoy; SAIC-GM sold 834,000 vehicles, a decrease of 12.9% yoy; SGM-Wuling sold 744,000 vehicles, a decrease of 29.2% yoy, and SAIC Passenger Vehicle sold 311,000 vehicles, a decrease of 13.2% yoy. On the whole, due to the enhanced promotion of cars, SAIC-GM enjoyed a sound performance, with relief in decline; SAIC Volkswagen/SAIC Passenger Vehicle continued to decline, but with recovery at their retail ends; and SGM-Wuling still remained under pressure.

Production and sales growth are expected to improve in H2

To speed up the de-stocking of cars of National Standard V, SAIC has stepped up its support in the early stage by offering a discount of RMB3 billion to support the trade of old cars of National Standard III or below for new in Shanghai. With the increasing terminal discounts of current car models, the terminal demand has improved in June. We expect that, with the drop of base number in H2, the yoy decline will be relieved stage by stage.

New models of SAIC Volkswagen for 2019 include T-Cross, brand-new Polo, brand-new Superb, and Teramont Coupe, and new models of SAIC-GM include brand-new Encore, Blazer, Cadillac CT4/CT5/XT6, and etc. In terms of new energy models, the joint venture partners will launch the hybrid version and brand-new all-electric version for current models, gradually. SAIC Roewe RX5 MAX is about to go on sale, and Roewe and MG are going to launch several new energy car models. We believe that, the intensive launch of new models and the price recovery of models of National Standard VI will help the Company to improve its single vehicle prices on the whole in H2.

Hold (Downgrade)

CMP CNY24.69

(Closing price as at 24 July 2019)

TARGET CNY25.3 (+2.47%)

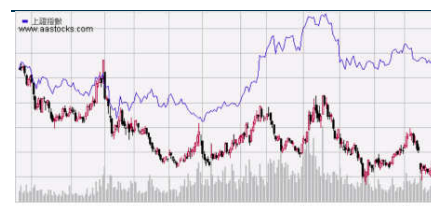
COMPANY DATA

O/S SHARES (MN) :	11683
MARKET CAP (CNY MN) :	284020
52 - WK HI/LO (CNY):	33.28/ 22.69

SHARE HOLDING PATTERN, %

Shanghai Automotive Industry Co. (Group)	71.24
Yuejin Auto	3.54

PRICE VS. SHCOMP



Source: Phillip Securities (HK) Research

KEY FINANCIALS

CNY mn	FY17	FY18	FY19E	FY19E
Net Sales	870639	902194	877643	905170
Net Profit	34410	36009	32334	34653
EPS, CNY	2.96	3.08	2.77	2.97
P/E, x	8.3	8.0	8.9	8.3
BVPS, CNY	19.37	20.06	21.30	23.10
P/BV, x	1.3	1.2	1.2	1.1
DPS (CNY)	1.83	1.26	1.15	1.20
Div. Yield (%)	7.4%	5.1%	4.7%	4.9%

Source: Company reports, Phillip Securities Est.

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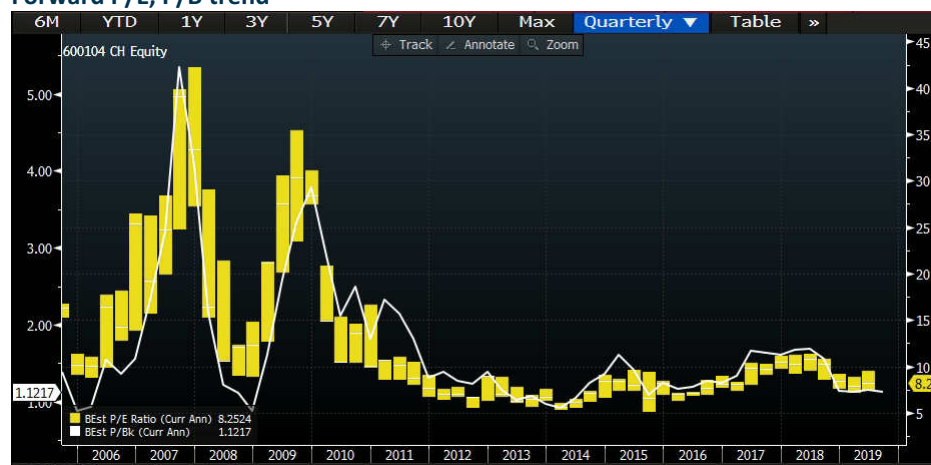
The worst may have been over, and the change in industrial pattern will do good to leading companies

We believe that, the causes for the slowdown of the domestic auto market include not only the rapid growth of years and the demand for self-regulation after the enlargement of base number, but also the relief in macroeconomic environment and the depressing consumer confidence by China-American trade war, as well as the aggravated industry reshuffle caused by industrial policies such as the upgrade of emission standards and significant decline of new energy subsidies. In terms of new model application and current model reserve, the industrial pattern will be more concentrated on leading vehicle companies in the future. As an industry leader with leading positive market share, sufficient R&D input and complete product pedigree, the Company is expected to take the pre-emptive opportunity in the auto market recovery in H2.

Investment Thesis

We adjust the ESP forecast of 2019/2020 to RMB 2.77/2.97. Considering its relatively high cash dividend payout rate is helpful to the stability of valuation, we give the target price of RMB 25.3, equivalent to 9.1/8.5x E P/E ratios and 1.2/1.1 E P/B ratios for 2019/2020. The "Hold" rating is given. (Closing price as at 24 July 2019)

Forward P/E, P/B trend



Source: Bloomberg, Phillip Securities Hong Kong Research

Peer Comparison

Ticker	Name	P/E—2019E	P/B	ROE
600104 CH	SAIC	7.87	1.17	15.67%
000625 SZ	Changan	48.9	0.84	1.45%
489 HK	Dongfeng	4.65	0.46	11.46%
2238 HK	GAC	6.75	0.92	14.93%

Source: Bloomberg, Wind, Phillip Securities Hong Kong Research

Financials

FYE DEC	FY15	FY16	FY17	FY18	FY19F	FY20F
Valuation Ratios						
P/E (X), adj.	9.1	8.5	8.3	8.0	8.9	8.3
P/B (X)	1.6	1.4	1.3	1.2	1.2	1.1
Dividend Yield (%)	5.5%	6.7%	7.4%	5.1%	4.7%	4.9%
Per share data (RMB)						
EPS, (Basic)	2.70	2.90	2.96	3.08	2.77	2.97
EPS, (Diluted)	2.70	2.90	2.96	3.08	2.77	2.97
DPS	1.36	1.65	1.83	1.26	1.15	1.20
BVPS	15.88	17.41	19.37	20.06	21.30	23.10
Growth & Margins (%)						
Growth						
Revenue	6.4%	12.8%	15.1%	3.6%	-2.7%	3.1%
EBIT	7.2%	9.9%	8.6%	0.2%	-12.0%	8.0%
Net Income, adj.	6.5%	7.2%	7.7%	4.6%	-10.2%	7.2%
Margins						
Gross margin	12.6%	14.0%	14.7%	14.7%	13.9%	14.1%
EBIT margin	6.8%	6.6%	6.2%	6.0%	5.5%	5.7%
Net Profit Margin	4.4%	4.2%	4.0%	4.0%	3.7%	3.8%
Key Ratios						
ROE	17.91%	17.40%	16.08%	15.63%	13.38%	13.36%
Income Statement (RMB mn)						
Revenue	670448	756416	870639	902194	877643	905170
Gross profit	84615	106198	128257	132208	121992	127357
EBIT	45578	50092	54404	54539	47987	51825
Profit before tax	45810	50425	54261	54344	47744	51536
Tax	5736	6531	7145	5939	4918	5669
Profit for the period	40074	43894	47116	48405	42827	45867
Minority interests	10280	11953	12706	12395	10493	11214
Total capital share	11026	11026	11683	11683	11683	11683
Net profit	29794	31941	34410	36009	32334	34653

Source: PSR

(Financial figures as at 24 July 2019)

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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