

BAIC (1958.HK)

More Challenge than opportunity in H2

Hong Kong | Automobile | Update Report

9 September 2019

Investment Summary

Net Profit Fell by 26% in the Middle of 2019

According to the interim results of BAIC, in 2019H1, the Company recorded a revenue of RMB87,764 million, an increase of 14.1% yoy, a net profit attributable of RMB2.09 billion, a decrease of 25.9% yoy; and an EPS of RMB0.25, while that of 2018H1 was RMB0.36.

Gross Margin Declined due to the Down-regulation of the Product Mix of Beijing Benz

The comprehensive gross margin of BAIC recorded 23.48%, a decrease of 3 ppts yoy. Though the revenue increased, the gross profit was basically flat, with a slight increase of 0.84%. This is mainly because Beijing Benz's low-priced Class-A models accounted for a larger share of sales, causing the product mix to be down-regulated. In H1, Beijing Benz recorded a sales volume, revenue and gross profit of 282,000 vehicles, RMB77.81 billion, and RMB22.02 billion, respectively, an increase of 11.9%, 10.8% and 0.16% yoy, with the average gross profit of single vehicle declined by 10%, approx. In H2, Beijing Benz will launch new models including the interim modified long-wheelbase GLC SUV, brand-new GLB SUV, EQC EV SUV, and A35-LAMG. With the increased demand for premium cars, we are confident that Beijing Benz will continue to maintain its sound growth momentum.

NEV Enjoyed Strong Sales Momentum, Leading Self-Brands to Reduce Losses

The gross margin of Self Brands of BAIC increased to -14.2% from -23.2% of the same period of last year, mainly due to 1) the growth of sales volume; 2) the increase in the proportion of new-energy models with relatively high gross profit; and 3) the impact of the decline of new-energy subsidy policy which offset part of the gross profit.

The gross profit of BAIC's Self Brands increased to -RMB1,414.9 million from -RMB1,551 million of the same period of last year, with a loss reduction of RMB136 million or 8.8%. In H1, Self Brands of BAIC sold 82,000 vehicles, an increase of 12.2% yoy, of which new-energy models sold recorded 54,000 vehicles, a significant increase of 263% yoy, which served as the main driving force. Revenue related to Self-Brands increased to RMB9,956.6 million, an increase of 49% yoy. The average unit price of Self-Brands increased by 30%, approx., and the average gross profit loss of single vehicle decreased by 20%.

In H2, the Company will divest officially the severely loss-making brands, Wei Wang and BJ, which will benefit the overall loss reduction of its Self-Brands. However, in view of the ongoing integration of BAIC Self-Brands and the adjustment to the domestic NEV market in H2, we are still cautious about the Self-Brands in the short term.

Beijing Hyundai Turned Gain to Loss

Due to the fierce price competition and the de-inventory of models of National V Standards, Beijing Hyundai recorded a finished vehicle wholesale of 276,000 vehicles in H1, a decrease of 27.3% yoy, causing the Company's attributable profit to turn to a loss of RMB365 million from a gain of RMB580 million of the same period of last year, which served as the main reason for the sharp decline of the Company's results. In H2, BAIC Hyundai will launch a number of products including the brand-new ix25 SUV, new Verna sedan, Generation-10 Sonata sedan and Fista and Encino EV models. We believe that, with the launch of new models and models of National VI Standards, the earning performance of Beijing Hyundai will be better than that in H1. However, it will still be difficult to improve significantly in the highly competitive auto market.

Hold (Downgrade)

CMP HKD 4.51

(Closing price as at 5 August 2019)

TARGET HKD 4.73 (+4.9%)

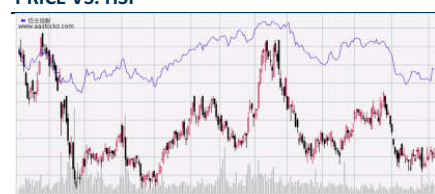
COMPANY DATA

O/S SHARES (MN) :	8105
MARKET CAP (HKD MN) :	11368
52 - WK HI/LO (HKD):	6.6 / 3.87

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	12/17	12/18	12/19F	12/20F
Net Sales	134159	151920	169364	186951
Net Profit	2253	4430	4407	4827
EPS, CNY	0.30	0.55	0.54	0.60
P/E, x	12.8	7.2	7.5	6.8
BVPS, CNY	5.38	6.20	6.33	6.68
P/BV, x	0.7	0.6	0.6	0.6
DPS (CNY)	0.10	0.19	0.19	0.20
Div. Yield (%)	2.6%	4.8%	4.7%	4.9%

Source: Company reports, Phillip Securities Est.

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Investment Thesis

Given the latest financial data, we lower the profit forecast of the company in 2019/2020 to EPS of RMB 0.54 / 0.60. We will also revise target price to 4.73 HKD (7.9/7.2x for 2019/2020 P/E) and Hold rating. (Closing price as at 5 August 2019)

BAIC's forward P/E P/B trend



Source: Bloomberg, Company, Phillip Securities Hong Kong Research

Peer Comparison

代码	证券简称	总市值(万元)	流通市值(万元)	市盈率PE			市净率PB(MRQ)
				TTM	19E	20E	
1958.HK	北京汽车	3,244,316.50	1,020,283.63	9.01	8.34	6.68	0.65
中位值		4,749,554.49	1,908,309.82	8.82	8.34	6.68	0.80
0175.HK	吉利汽车	10,014,825.85	10,014,825.85	9.86	10.83	8.84	2.10
1211.HK	比亚迪股份	9,662,211.17	3,240,637.93	26.76	31.81	26.78	1.66
2238.HK	广汽集团	6,659,759.80	2,015,692.17	7.28	6.57	5.86	0.82
0489.HK	东风集团股份	5,433,635.62	1,800,927.46	3.95	4.44	4.25	0.43
2333.HK	长城汽车	4,065,473.36	1,380,598.87	13.07	9.58	8.44	0.77
1114.HK	BRILLIANCE CHI	3,801,664.27	3,801,664.27	6.75	5.55	4.88	1.08

Source: Wind, Phillip Securities Hong Kong Research

Financials

FYE DEC	FY15	FY16	FY17	FY18	FY19F	FY20F
Valuation Ratios						
P/E (X), adj.	8.5	4.8	12.8	7.2	7.5	6.8
P/B (X)	0.8	0.8	0.7	0.6	0.6	0.6
Dividend Yield (%)	4.0%	7.2%	2.6%	4.8%	4.7%	4.9%
Dividend payout ratio (%)	34.3%	34.6%	33.7%	34.8%	34.9%	33.6%
Per share data (RMB)						
EPS, reported	0.44	0.84	0.30	0.55	0.54	0.60
EPS, adj.	0.44	0.84	0.30	0.55	0.54	0.60
DPS	0.15	0.29	0.10	0.19	0.19	0.20
BVPS	4.61	5.29	5.38	6.20	6.33	6.68
Growth & Margins (%)						
Growth						
Revenue	49.2%	38.1%	15.5%	13.2%	11.5%	10.4%
EBIT	20.8%	80.1%	11.1%	23.2%	9.2%	9.5%
Net Income, adj.	-26.4%	91.9%	-64.6%	96.6%	-0.5%	9.6%
Margins						
Gross margin	18.2%	22.6%	26.5%	24.4%	24.6%	24.4%
EBIT margin	10.4%	13.5%	13.0%	14.2%	13.9%	13.8%
Net Profit Margin	3.9%	5.5%	1.7%	2.9%	2.6%	2.6%
Key Ratios						
ROE (%)	9.7%	16.9%	5.6%	9.9%	8.8%	9.2%
ROA (%)	2.8%	4.3%	1.3%	2.6%	2.4%	2.4%
Income Statement (RMB mn)						
Revenue	84,112	116,199	134,159	151,920	169,364	186,951
Cost of sales	68,835	89,967	98,659	114,914	127,734	141,335
Gross profit	15,277	26,232	35,499	37,007	41,630	45,616
Other income and gains	1,244	189	-1,055	623	-307	-100
Operating expenditure	12,042	14,901	16,926	17,002	17,614	19,817
Financial costs	416	468	448	357	109	118
Profit before tax	8,321	15,269	17,036	21,175	23,402	25,637
Tax	1,999	3,733	6,038	6,904	7,664	8,396
Profit for the period	6,322	11,536	10,998	14,271	15,738	17,241
Minority interests	3,003	5,169	8,746	9,842	11,331	12,414
Net profit	3,319	6,367	2,253	4,430	4,407	4,827

Source: PSR

(Financial figures as at 5 September 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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