

# Dongfeng (489 HK)

## Attractive valuation

Hong Kong | Automobile | Update Report

28 October 2019

### Investment Summary

#### Interim Result Increased Slightly by 5%

Dongfeng Motor recorded sales revenue of RMB48,447 million in H1, down approximately 16.4% from approximately RMB57,922 million in the same period last year. The decline in revenue was mainly due to the decline in sales revenue of Dongfeng Peugeot Citroen. In addition, the weakness of passenger vehicle business of Dongfeng Liuzhou Motor Co., Ltd. also caused some drag. The net profit attributable to stockholders reached RMB8.5 billion, up 5.3% yoy, with EPS of RMB0.99. The Company continued to distribute a steady interim dividend: 10 cents per share.

#### Multiple Factors Interwove to Push the Result Higher Against the Trend

The result of the Company rose against the background of weak market in H1. The main factors include:

1) The total cost decreased by 18.5%, more than the revenue decrease, mainly due to the outstanding profit performance of commercial vehicles and the rapid development of auto finance business. As a result, gross profit decreased slightly, by only 3.2% or RMB260 million yoy. Gross margin increased by 2.2 ppts to 16.1% yoy.

2) Due to the decrease in advertising expenses in H1, the sales expenses continued to decrease by 11.4% or RMB324 million yoy. As there was no gas, water and electricity charges accrued in the same period last year during the period, and the technology transfer fee of DFPSA decreased, other expenses decreased by RMB870 million.

3) Profit attributable to affiliated enterprises increased by RMB697 million or 11.45% yoy, mainly due to the lower base because of recall of Dongfeng Honda passenger vehicles and provisions set aside for large-value asset impairment in the same period last year.

These positive effects were offset partly by the following factors:

1) Due to the increase in interest expenses and unfavourable exchange direction, financial expenses increased by RMB166 million yoy.

2) The decrease in interest income resulted in a decrease of RMB380 million in other operating income. Available-for-sale financial assets increased by RMB340 million.

#### Overall Sales Beat the Big Market, with Japanese-series Brands Being the Main Driving Force

According to the total sales volume, the market share of the Company in H1 was approximately 11.2%, up by 0.5 ppts yoy. The market share of passenger vehicles and commercial vehicles increased by 0.3 and 0.8 ppts, respectively. In H1, the Company sold approximately 1,374,400 vehicles, down approximately 9% yoy, lower than the industry average by approximately 3.4 ppts. Specially, 1.134 million passenger vehicles were sold, down 11.3% yoy, lower than the industry average by approximately 2.7 ppts. The sales volume of Sedan, SUV and MPV models decreased by 6.2, 13.6% and 30.7% yoy, respectively. According to brands, Japanese joint ventures were the main driving force of sales volume: The sales volume of Dongfeng Motor Co., Ltd. (DFL) decreased by 1.7%, the sales volume of DFPSA decreased by 60%, and the sales volume of Dongfeng Honda increased by 13.3%.

The sales volume of commercial vehicles reached 240,500 vehicles, up 3.9% yoy, 8 ppts higher than the industry; the sales volume of medium heavy trucks decreased by 0.8% yoy, lower than the industry average by 5 ppts, while the sales volume of light trucks increased 14.5% yoy, leading by 16.2 ppts.

### Buy (Maintain)

CMP HKD 7.43

(Closing price as at 24 October)

TARGET HKD 9 (+21%)

#### COMPANY DATA

O/S SHARES (MN):	8616
MARKET CAP (HKD MN):	22104
52 - WK HI/LO (HKD):	8.8 / 5.87

#### SHARE HOLDING PATTERN, %

Dongfeng Motor Corporation	66.86
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#### PRICE VS. HSI



Source: Aastock, Phillip Securities (HK) Research

#### KEY FINANCIALS

CNY mn	FY17	FY18	FY19E	FY20E
Net Sales	125016	104543	98018	96501
Net Profit	14063	12979	13915	14854
EPS, CNY	1.63	1.51	1.62	1.72
P/E, x	3.8	4.4	4.1	3.9
BVPS, CNY	12.56	13.74	15.00	16.38
P/BV, x	0.5	0.5	0.4	0.4
DPS (CNY)	0.35	0.35	0.35	0.35
Div. Yield (%)	5.7%	5.3%	5.2%	5.2%

Source: Company reports, Phillip Securities Est.

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### Long-term and Arduous Task to Improve French Brands

In terms of sales in Q3, Japanese brands remained strong, while DFL continued to rise against the trend but its growth rate narrowed, with sales volume up 5% yoy to 377,000 vehicles; Dongfeng Honda surged 21.7% to 212,000 vehicles. The sales volume of French vehicles decreased by 40% yoy to 28,000 vehicles. Driven by heavy trucks and light trucks, the commercial vehicle sector recorded a good growth rate, with sales volume up 11% yoy in Q3. In response to the declining trend of French vehicles, the shareholders of China and France have launched a six-year meta-plan to make all-round adjustments in the organization structure, models and marketing to reduce the management level. In the next three years, 14 new vehicles will be launched and a dual-brand collaborative sales strategy will be implemented to restore the annual sales volume to 400,000 vehicles. We believe that in the current vehicle market environment, it is a long-term and arduous task to achieve this objective.

### Investment Thesis

In accordance with the latest data, we adjust the Company's EPS forecast, and target price to HK\$9, equivalent to 5.0/4.7x P/E ratio in 2019/2020. The "Buy" rating is given. (Closing price as at 24 October)

Dongfeng's Best P/E & P/B trend



Source: Bloomberg, Phillip Securities Hong Kong Research

## Financials

FYE DEC	FY15	FY16	FY17	FY18	FY19F	FY20F
<b>Valuation Ratios</b>						
P/E (X), adj.	4.6	4.3	3.8	4.4	4.1	3.9
P/B (X)	0.6	0.6	0.5	0.5	0.4	0.4
Dividend payout Yield (%)	14.9%	14.8%	21.4%	23.2%	21.7%	20.3%
Dividend Yield (%)	3.2%	3.5%	5.7%	5.3%	5.2%	5.2%
<b>Per share data (RMB)</b>						
EPS, reported	1.34	1.55	1.63	1.51	1.62	1.72
EPS, adj.	1.34	1.55	1.63	1.51	1.62	1.72
DPS	0.2	0.23	0.35	0.35	0.35	0.35
BVPS	9.8	11.2	12.6	13.7	15.0	16.4
<b>Growth &amp; Margins (%)</b>						
<b>Growth</b>						
Revenue	56.3%	-3.3%	2.1%	-16.4%	-6.2%	-1.5%
EBIT	-2.1%	16.6%	1.1%	-11.4%	14.6%	6.8%
Net Income, adj.	-10.1%	15.6%	5.3%	-7.7%	7.2%	6.7%
<b>Margins</b>						
EBIT margin	11.0%	13.2%	13.1%	13.9%	17.0%	18.4%
Net Profit Margin	9.1%	10.9%	11.2%	12.4%	14.2%	15.4%
<b>Key Ratios</b>						
ROE (%)	14.58%	14.73%	13.72%	11.46%	11.24%	10.99%
<b>Income Statement (RMB mn)</b>						
<b>Revenue</b>	<b>126566</b>	<b>122422</b>	<b>125016</b>	<b>104543</b>	<b>98018</b>	<b>96501</b>
<b>Gross profit</b>	<b>16929</b>	<b>17517</b>	<b>16112</b>	<b>13415</b>	<b>12938</b>	<b>12613</b>
EBIT	13876	16184	16367	14504	16621	17759
Profit before tax	14065	15739	15775	14239	16281	17405
<b>Tax</b>	<b>(1353)</b>	<b>(1274)</b>	<b>(1141)</b>	<b>(1661)</b>	<b>(1791)</b>	<b>(1915)</b>
Profit for the period	12712	14465	14634	12578	14490	15490
Minority interests	1162	1110	571	(401)	575	636
Total capital share	8616	8616	8616	8616	8616	8616
<b>Net profit</b>	<b>11550</b>	<b>13355</b>	<b>14063</b>	<b>12979</b>	<b>13915</b>	<b>14854</b>
Source: PSR						

(Closing price as at 24 October)

### 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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