

SAIC Motor (600104 CH)

Getting Back on Track in H2

China | Automobile | Company Update

14 July 2020

Investment Summary

The Bumpy Year of 2019

In 2019, the overall auto market has experienced a downturn. As the leader, SAIC has also been affected, with its car sales down by 11.5% yoy to 6.238 million units. As a result, the annual total revenue has decreased by 6.5% yoy to RMB843.3 billion. The net profit attributable to the parent company was RMB25.6 billion, down by 28.9% yoy from RMB36 billion in the same period last year. The net profit margin was 4.27%, a decrease of 1.18 ppts yoy. Earnings per share were RMB2.19, dividends per share were RMB0.88, and the dividend payout ratio was 40%.

In 2019, the switching of China's stage VI vehicle emission standards has increased the promotion expense, and the subsidies of new energy have decreased due to the retreat policies, which hit the profitability of auto manufacturers. During this period, the Company's overall gross margin was 13.37%, down by 0.85 ppts yoy. Among them, the gross margin of the auto manufacturing segment was 12.15%, down by 1.1ppts yoy. The gross margin of the financial segment was 73.28%, flat yoy. The period expense ratio was 11.05%, decreased by 0.07 ppts yoy, of which the expense ratio of sales falling by 0.22 ppts, the ratio of administration expenses increased by 0.29 ppts, and the R&D expense ratio dropped by 0.12 ppts. The performance of joint-venture brands varied. The sales volume of SAIC Volkswagen dropped by 3%, outperformed the industry, but its net profit fell by 29% yoy to RMB20 billion. SAIC-GM's sales volume decreased by 19% and its net profit dropped by 30% to RMB11 billion. SGM-Wuling's sales volume fell 19% with a net profit of RMB1.7 billion, down by 59% yoy. The sales volume of SAIC's own brand fell 4%. The loss reached RMB7.1 billion, widening by RMB3.5 billion compared to the same period of last year.

Performed Poorest in Q1 of 2020

In early 2020, due to the pandemic, domestic auto industries were nearly suspended. In Q1, the overall sales volume of the industry significantly reduced by 45% yoy, with the sales volume of auto manufacturers dramatically reached to the bottom. The Company's first-quarter sales volume dropped by 56% yoy, underperformed the industry. Among them, the sales volume of SAIC Volkswagen, SAIC-GM, SAIC's own brand and SGM-Wuling decreased by 60.9%, 58.0%, 33.7% and 61.5%, respectively. Results continued to be under pressure. The revenue was RMB105.9 billion, down by 47% yoy. The net profit attributable to the parent company was RMB1.12 billion, down by 86.4% yoy. The earnings per share were RMB0.096. In addition, due to the exchange rate changes, the exchange loss increased yoy and the financial expenses increased by 66.32% yoy. Influenced by the capital market, the gains /loss from fair-value-changes decreased by 277.52% yoy.

Getting Back on Track in Q2

From Q2, with the domestic pandemic under control and the government's supportive policies of "Protecting the Economy and Promoting the Consumption", the demand for automobiles gradually returns on track and the overall production and sales of SAIC also increase month by month. From the yoy's data, the Company's sales volume decline in April has narrowed significantly, the production output has turned positive in May and the wholesale has turned positive in June. Although the Company is still underperforming the average level of the industry, it is mainly due to the high base of SAIC Volkswagen's huge destocking last year. In line with the street vending economy, SGM-Wuling's mini-truck has a strong performance and becomes the main force driving the Corporate's sales growth..

Buy (Upgrade)

CMP CNY 18.93

(Closing price as at 10 July)

TARGET CNY 23 (+21.5%)

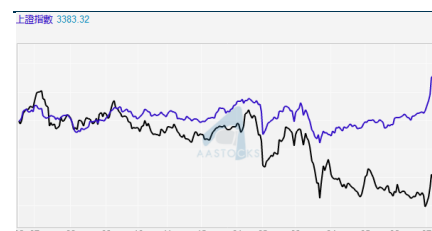
COMPANY DATA

O/S SHARES (MN) :	11683
MARKET CAP (CNY MN) :	221168
52 - WK HI/LO (CNY):	26.43/ 16.9

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 bn	FY18	FY19	FY20E	FY21E
Net Sales	9022	8433	7592	8704
Net Profit	360	256	219	270
EPS, CNY	3.08	2.19	1.87	2.31
P/E, x	6.1	8.6	10.1	8.2
BVPS, CNY	20.06	21.37	22.40	23.60
P/BV, x	0.9	0.9	0.8	0.8
DPS (CNY)	1.26	0.88	0.80	1.12
Div. Yield (%)	6.7%	4.6%	4.2%	5.9%

Source: Company reports, Phillip Securities Est.

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New Product Cycle Starts, Sales Are Expected to Further Recover

For the second half of the year, we believe that the situations of SAIC are expected to further recover. First, the SAIC Volkswagen's MEB platform, which has been built for the electrification transformation for a long time, will be put into production in October this year. The localization of SAIC Audi will soon start the implementation. SAIC-GM also has some new products to launch, such as the large SUV Chevrolet Blazer, Cadillac CT4, and Buick Excelle with four-cylinder engines. The RX5 Plus (mid-term modification) and MG6 of SAIC's self brand are going to be launched in the middle of this year and are also expected to increase the sales volume. As the leader of the domestic auto industry, we believe that SAIC has a complete product spectrum and can achieve a rapid recovery in sales volume in H2.

Repurchasing and Shareholding in China Auto Renting Inc. Demonstrates the Confidence of Future.

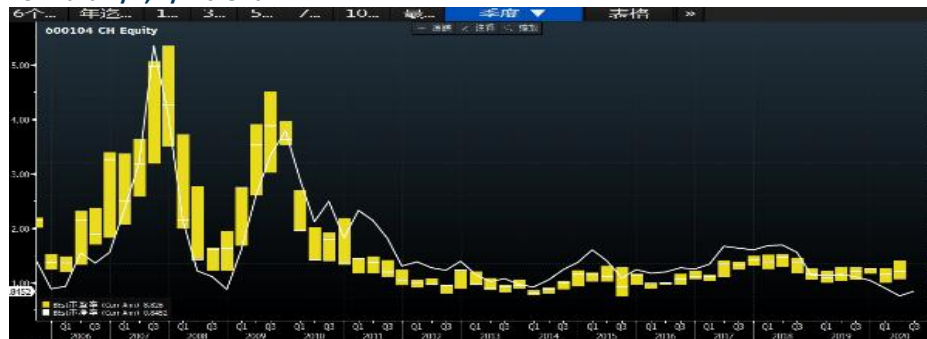
Recently, SAIC announced that it plans to spend RMB3 billion to repurchase 0.5%-1.0% of the Company's total shares and the buyback price will not be over RMB25.97, which is near 40% higher than the current price. The repurchased shares will be used to implement an equity incentive, which demonstrates the management's confidence in the company's future development. Meanwhile, the Company also has announced that it intends to acquire no more than 28.92% of the shares of China Auto Renting Inc. at a price of HKD3.10 per share. If it successfully completed, the Company will become the largest shareholder of China Auto Renting Inc.

Investment Thesis:

Low Valuation and High Dividend highlight

In the long term, we believe that it is normal for China automobile market to maintain a medium and low growth rate, which will accelerate the industry's reshuffle. Based on the new model declarations and the existing model reserves, the dominance of top auto companies is more and more clear and obvious. With a leading market share, high R&D investment, and a complete product spectrum, the Company is in a relatively advantageous position. We adjust the ESP forecast of 2020/2021 to RMB 1.87/2.31. Considering its relatively high cash dividend payout rate is helpful to the stability of valuation, we give the target price of RMB 23, equivalent to 12.3/10x E P/E ratios and 1.0/1.0 E P/B ratios for 2020/2021. The "Buy" rating is given. (Closing price as at 10 July)

Forward P/E, P/B trend



Source: Bloomberg, Phillip Securities Hong Kong Research

Peer Comparison

Ticker	Name	P/E—2021E	P/B	ROE
600104 CH	SAIC	8.15	0.9	10.6%
000625 SZ	Changan	13.76	1.4	-6%
489 HK	Dongfeng	2.9	0.3	10.5%
2238 HK	GAC	6.8	0.7	8.4%

Source: Bloomberg, Wind, Phillip Securities Hong Kong Research

Financials

FYE DEC	FY16	FY17	FY18	FY19	FY20F	FY21F
Valuation Ratios						
P/E (X), adj.	6.5	6.4	6.1	8.6	10.1	8.2
P/B (X)	1.1	1.0	0.9	0.9	0.8	0.8
Dividend Yield (%)	8.7%	9.7%	6.7%	4.6%	4.2%	5.9%
Per share data (RMB)						
EPS, (Basic)	2.90	2.96	3.08	2.19	1.87	2.31
EPS, (Diluted)	2.90	2.96	3.08	2.19	1.87	2.31
DPS	1.65	1.83	1.26	0.88	0.80	1.12
BVPS	17.41	19.37	20.06	21.37	22.40	23.60
Growth & Margins (%)						
Growth						
Revenue	12.8%	15.1%	3.6%	-6.5%	-10.0%	14.7%
EBIT	9.9%	8.6%	0.2%	-24.9%	-22.1%	30.1%
Net Income, adj.	7.2%	7.7%	4.6%	-28.9%	-14.5%	23.4%
Margins						
Gross margin	14.0%	14.7%	14.7%	13.9%	13.8%	14.1%
EBIT margin	6.6%	6.2%	6.0%	4.9%	4.2%	4.8%
Net Profit Margin	4.2%	4.0%	4.0%	3.0%	2.9%	3.1%
Key Ratios						
ROE	17.40%	16.08%	15.63%	10.58%	8.56%	10.05%
Income Statement (RMB mn)						
Revenue	756416	870639	902194	843324	759170	870416
Gross profit	106198	128257	132208	117224	104765	122729
EBIT	50092	54404	54539	40982	31905	41505
Profit before tax	50425	54261	54344	40958	31800	41336
Tax	6531	7145	5939	5669	3943	5332
Profit for the period	43894	47116	48405	35289	27857	36004
Minority interests	11953	12706	12395	9686	5975	9001
Total capital share	11026	11683	11683	11683	11683	11683
Net profit	31941	34410	36009	25604	21882	27003

Source: PSR

(Closing price as at 10 July)

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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