

# SAIC Motor (600104 CH)

## Sales Rebounded, with the Pace of Transformation Accelerated

China | Automobile | Company Update

17 September 2021

### Investment Summary

#### Net Profit Increased by 59% in H1

In the first half of 2021, SAIC Motor reported revenue of RMB366,096 million, up by 29% Y-o-Y. The net profit attributable to the parent company was RMB13,314 million, up by 59% Y-o-Y. The net profit attributable to the parent company excluding non-recurring items was RMB11,854 million, up by 65.2% Y-o-Y. By quarters, the revenue increased by 78.5% Y-o-Y to RMB189.09 billion in Q1 and decreased by 0.5% Y-o-Y to RMB177 billion in Q2. The net profit attributable to the parent company was RMB6,847 million and RMB6,467 million, respectively, up by 511% and down by 11% Y-o-Y, respectively. The large volatility of year-on-year data by quarters was mainly due to the large difference in the base caused by the pandemic last year. Compared with the same period in 2019, it decreased by 17% and increased by 17%, respectively. Compared with Q1, quarter-on-quarter data in Q2 was mainly dragged down by rising raw material prices and tight chip supply.

#### Overall Gross Margin Rebounded

In H1, the gross margin was 11.44%, up by 1.19 ppts Y-o-Y. The period expense ratio was 10.2%, down by 0.3 ppts Y-o-Y. The net profit margin was 5.34%, up by 1.34 ppts Y-o-Y. By quarters, the gross margin in Q1 and Q2 was 11.1% and 11.8%, respectively, up by 0.22 ppts and 1.92 ppts Y-o-Y, respectively. It reflected the enhancing effect on gross profit brought by priority shipments of high-unit-price models amid tight chip supply. The net profit margin in the first two quarters was 5.17% and 5.53%, respectively, up by 3.75 ppts and 0.02 ppts Y-o-Y, respectively. Compared with the same period in 2019, it decreased by 0.43 ppts and increased by 1.25 ppts, respectively. In addition, the Company further increased its R&D investment in technologies of new energy vehicles and intelligent connected vehicles, which led to the quarter-on-quarter increase in expense ratio in Q2. This was also one of the reasons for the quarter-on-quarter decline in net profit.

In H1, the net cash flow from operating activities was RMB1,585 billion, down by 94.6% Y-o-Y. The main reason was that the subsidiary, SAIC Finance, issued auto loan ABS, which led to a year-on-year decrease of RMB31,455 million in the net cash flow from operating activities in the financial sector. During the same period, the Company's net cash flow from corporate operating activities in the manufacturing sector was RMB14,541 million, up by RMB3,682 million or 33.9% Y-o-Y.

#### New Energy Vehicles and Exports Displayed Excellent Performance

Amid the limited supply of chips, the Company's wholesale sales volume of finished vehicles in H1 was 2297 thousand units, up by 12.1% Y-o-Y. However, the retail sales volume of terminals reached 2945 thousand units, up by 29.7% Y-o-Y. The channel inventory continued to decline. In particular, the retail sales volume of passenger cars was 2423 thousand units, up by 30.8% Y-o-Y, and that of commercial vehicles was 522 thousand units, up by 25.2 Y-o-Y. The Company sold more than 280,000 new energy vehicles, a year-on-year increase of more than 400%. Its growth rate was twice that of the market, and the Company continued to be a leader in China.

Approximately 260,000 vehicles were exported and sold overseas in H1. The sales volume nearly doubled Y-o-Y. The Company continued to rank first in the domestic industry in terms of the exports of finished vehicles. Self-owned brands accounted for more than 60% of the Company's overseas sales volume. Overseas retail sales volume of the MG brand exceeded 130 thousand units, which doubled Y-o-Y. SAIC MAXUS sold nearly 22 thousand units overseas, up by 281% Y-o-Y. There were nearly 1,200 overseas outlets for self-owned brands.

### Buy (Maintain)

CMP CNY 20.21

(Closing price as at 15 September)

TARGET CNY 25.9 (+28%)

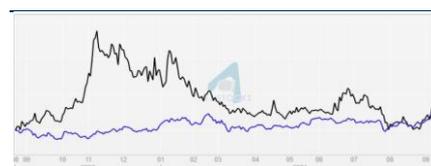
#### COMPANY DATA

O/S SHARES (MN) :	11575
MARKET CAP (CNY MN) :	236123
52 - WK HI/LO (CNY):	28.8/ 18.03

#### 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	FY20	FY21E	FY22E	FY23E
Net Sales	742	848	897	978
Net Profit	20.4	25.5	29.0	32.7
EPS, CNY	1.75	2.21	2.51	2.83
P/E, x	11.6	9.2	8.1	7.1
BVPS, CNY	22.26	23.45	24.70	26.20
P/BV, x	0.9	0.9	0.8	0.8
DPS (CNY)	0.62	0.85	0.97	1.10
Div. Yield (%)	3.1%	4.2%	4.8%	5.4%

Source: Company reports, Phillip Securities Est.

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On a closer look at brands, self-owned brands saw strong growth. The sales volume of SAIC passenger cars, SAIC MAXUS, and SGM-Wuling reached 381 thousand units, 106 thousand units, and 884 thousand units, respectively, while their year-on-year growth rate was 60.2%, 57.2% and 39.5%, respectively, far surpassing the industry average. After the launch of the "Macaron version", Wuling Hongguang MINIEV saw increased price and steady quantity, and continued to rank first in terms of the sales volume of domestic electric vehicles. Among the major joint venture brands, the sales volume of SAIC-GM and SAIC Volkswagen was 746 thousand units and 670 thousand units, respectively, up by 25.5% and 14% Y-o-Y, respectively. SAIC-GM, driven by Cadillac XT6, CT5, and Buick GL8, reported a strong sales momentum. Only the sales volume of SAIC Volkswagen fell short of expectations and was significantly lagged behind its peers. SAIC Volkswagen's net profit was dragged down by 58.22% Y-o-Y to RMB2,885 million. However, in H2, SAIC Volkswagen would accelerate the launch of new products and launch new models such as SAIC Audi A7L, new Lamando, and new Passat. In addition to the marginal improvement of chip shortage in H2, the sales volume is expected to gradually increase.

### Sales Volume Stabilized and Rebounded, and the Pace of Transformation Accelerated

According to latest data, SAIC Motor's sales volume continued to stabilize and rebound. The sales in August dropped by 10.1% Y-o-Y, and significantly increased by 28.6% Q-o-Q to 453.4 thousand units. Compared with July, the year-on-year decline was significantly narrowed by 17.3 ppts, reflecting the tight chip supply was eased. The monthly sales volume of SAIC passenger cars, SAIC MAXUS, SAIC Volkswagen, SAIC-GM, and SGM-Wuling reached 65 thousand units, 17 thousand units, 123 thousand units, 106 thousand units, and 130 thousand units, respectively, representing an increase of 28.9% and 1.9% and a decrease of 15.2%, 18.0% and 12.1% Y-o-Y, respectively.

Faced with the restructuring of the automotive industry's boundaries, in recent years, the Company has been undergoing transformation. It has continued to make efforts in electrification and intelligence, and promoted the implementation of strategic projects. At the technical level, the Company promoted the R&D and application of a new pure electric vehicle architecture and a new generation of "EIC" system, and actively arranged the next-generation battery technology jointly with innovative solid-state battery companies such as QuantumScape and Qingtao. It has initially developed an integrated full-stack intelligent vehicle solutions consisting of centralized integrated and domain control electronic architecture, SOA software platform, intelligent vehicle data factory, artificial intelligence algorithms and smart chips, as well as full-stack OTA and network security solutions. At the product level, IM's first product, L7, has begun the reservation and is scheduled to be delivered in 2022. A new model will be launched per annum in the next three years. R Auto launches the "R-Tech" intelligent driving platform. The B-class SUV ES33 equipped with such technology platform will be launched in 2022. With the gradual easing of global chips and the launch of new models, the results are expected to continue to rally.

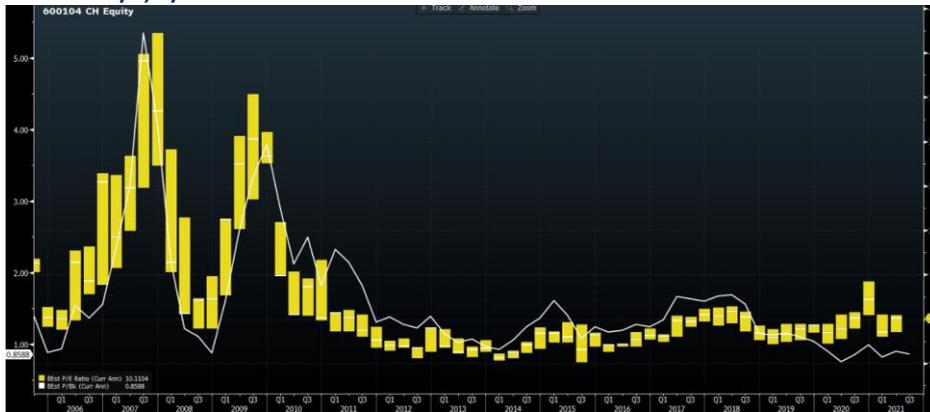
### Investment Thesis:

Recently, SAIC Motor has announced that it plans to spend RMB1.5-3 billion to repurchase shares for employee stock ownership plans or equity incentives. The price will not exceed RMB28.91 per share, namely, no less than 0.44%-0.89% of the Company's total shares. The repurchase price is close to a 40% premium to the current price, demonstrating the management's confidence in the continued development in the future and conveying to the market a signal that the stock price is undervalued.

We adjust SAIC Motor's EPS to RMB2.21 in 2021 (previously RMB2.31) to reflect the chip impact, and introduce the valuation of EPS of RMB2.51 and RMB2.83 for 2022 and 2023. We give the target price of RMB 25.9, equivalent to 11.7/10.3/9.2x E P/E

ratios and 1.1/1.0/1.0 E P/B ratios for 2021/2022/2023. The "Buy" rating is given. (Closing price as at 15 September)

**Forward P/E, P/B trend**



Source: Bloomberg, Phillip Securities Hong Kong Research

**Peer Comparison**

Ticker	Name	P/E - 2022E	P/B	ROE
600104 CH	SAIC	8.3	0.9	8.0%
000625 SZ	Changan	25.2	2.7	6.82%
489 HK	Dongfeng	3.4	0.4	8.2%
2238 HK	GAC	17.9	2.2	7.25%

Source: Bloomberg, Wind, Phillip Securities Hong Kong Research

## Financials

FYE DEC	FY19	FY20	FY21E	FY22E	FY23E
<b>Valuation Ratios</b>					
P/E (X), adj.	9.2	11.6	9.2	8.1	7.1
P/B (X)	0.9	0.9	0.9	0.8	0.8
Dividend Yield (%)	4.4%	3.1%	4.2%	4.8%	5.4%
<b>Per share data (RMB)</b>					
EPS, (Basic)	2.19	1.75	2.21	2.51	2.83
EPS, (Diluted)	2.19	1.75	2.21	2.51	2.83
DPS	0.88	0.62	0.85	0.97	1.1
BVPS	21.37	22.26337	23.45	24.7	26.2
<b>Growth &amp; Margins (%)</b>					
<b>Growth</b>					
Revenue	-6.5%	-12.0%	14.3%	5.8%	9.0%
EBIT	-24.9%	-12.2%	17.7%	13.4%	12.7%
Net Income, adj.	-28.9%	-20.2%	25.0%	13.7%	12.8%
<b>Margins</b>					
Gross margin	13.9%	13.1%	13.1%	13.6%	13.8%
EBIT margin	4.9%	4.9%	5.0%	5.4%	5.5%
Net Profit Margin	3.0%	2.8%	3.0%	3.2%	3.3%
<b>Key Ratios</b>					
ROE	10.58%	8.02%	9.65%	10.42%	11.12%
<b>Income Statement (RMB mn)</b>					
Revenue	<b>843324</b>	<b>742132</b>	<b>848318</b>	<b>897171</b>	<b>978043</b>
Gross profit	117224	96882	111299	121567	135361
EBIT	40982	35996	42375	48044	54125
Profit before tax	40958	35891	42206	48044	54125
Tax	5669	6704	6289	7159	8065
Profit for the period	35289	29188	35918	40885	46060
Minority interests	9686	8757	10380	11857	13311
Total capital share	11683	11683	11575	11575	11575
<b>Net profit</b>	<b>25604</b>	<b>20431</b>	<b>25537</b>	<b>29029</b>	<b>32749</b>

Source: PSR

(Closing price as at 15 September)

### 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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