



Equity Research | China | Automotive

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## Strong local-brand SUV portfolio a new driver

- Capacity and sales channel partly transfer from Senova to Wevan leads to surprisingly strong sales of local-brand SUVs in Jun-16.
- In spite of weakening Benz E-class sales, we see a strong pickup in other Benz models that would support our 20% sales growth forecast for Beijing Benz in 2016E.
- We maintain our BUY rating on BAIC with a PT of HKD6.48 pegging on 2016E 10.0x PER. In view of the strong sales growth of local-brand SUVs and Beijing Benz, we see room for further re-rating of BAIC.

**Surprisingly strong Beijing brand SUV sales and optimised sales channel.** BAIC sold a total of 44,571 units of its local brand in June, up 36.7%YoY, the primary growth driver as total SUV sales subsequently surged 798%YoY. Apart from Senova X55 which recorded a negative growth last month, X25, X35 and X65 have all delivered dramatic growth last month, up 43%, 99% and 9251% respectively. The management of the company attributed two reasons for the substantial sales growth of X65 in June: (1) the current sales channel of Senova X65 has been transferred to the Wevan brand. (2) the Production of Senova X65 will be shut down in the near future, with the X65 capacity to be switched to producing the Wevan S50 SUVs. As the X65 is the most pricy and largest SUV model in the Senova SUV portfolio with sluggish sales growth in 2016, we expect this substitution would further enhance the local brand's SUV sales due to S50's lower price tags and smaller engine size which could benefit from the 50% purchase tax cuts by end of this year.

**C-class and GLC/GLA drive Beijing Benz sales, in spite of weakening E-class sales.** Benz posted 26,487 units in sales volume in June, up 39%YoY. Despite so, we noticed E-class was the only model that had posted sales decline in the month, down from 2,067 units in May to 1,551 units in June (according to CPCA data). Taking into consideration of the much-awaited new E-class which is scheduled to be launched in 3Q16 and concerns over further sales decline of old the E-class, we estimate the annual sales volume of E-class will reduce to below 60K units as in last year, though total earnings would probably be offset by the price hikes of the new E-class and rapid sales growth of C-class and GLC/GLA (price to increase by c.30,000 when GLK upgrades to GLC)

**Valuation:** We have trimmed our sales assumption for Benz E-class but nudged up our sales assumption for Benz C-class and GLC/GLA, leaving our forecasts for Beijing Benz little changed. Hence, we maintain our forecasts on BAIC and PT unchanged at HKD6.48 (pegging on 10.0x 2016E PER). The stock trades at 2016E 9.2x PER, with room for re-rating as we expect the strong growth momentum of Senova SUV and Benz to continue in 2H16. Major downside risks include continual gross profit margin decline due to increase in local brand SUV sales. Maintain BUY.

## BAIC (1958 HK)

**Buy**

(unchanged)

<b>Price Target</b>	<b>HKD\$6.48</b>
(Revision)	(N/A)
(upside)	(7.1%)

EPS revision	2016E	2017E
	(N/A)	(N/A)

Close price	6.05
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Market cap.	USD5,923mn
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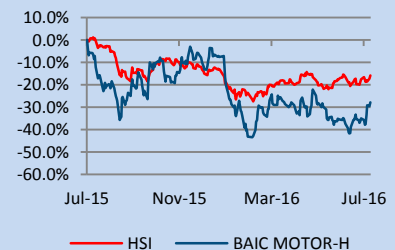
Free float	39.7%
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52-week range	HKD8.60 – HKD4.62
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3-mth ave. T/O	HKD8.5mn
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Price as of 2016.7.12

### Stock rel HSI performance (%)



### Analysts

TIAN Yang

(CE No.: BGL791)

[tianyang@csci.hk](mailto:tianyang@csci.hk) +852 3465 5775

**Income statement (RMBm)**

Year end: Dec	2014	2015	2016E	2017E	2018E
Revenue	56,370	84,112	97,576	119,374	135,323
COGS	(47,387)	(68,835)	(78,899)	(95,213)	(107,887)
Gross profit	8,983	15,277	18,676	24,162	27,435
Selling expenses	(5,647)	(8,002)	(8,946)	(10,581)	(11,468)
General and administrative	(3,455)	(4,039)	(4,570)	(4,913)	(5,282)
Other operating expenses					
<b>EBITDA</b>	<b>2,245</b>	<b>7,022</b>	<b>9,285</b>	<b>13,112</b>	<b>15,476</b>
Depreciation & Amortization	(2,364)	(3,787)	(4,125)	(4,445)	(4,790)
Other income	1,540	1,244	1,527	1,257	708
<b>EBIT</b>	<b>1,422</b>	<b>4,479</b>	<b>6,687</b>	<b>9,925</b>	<b>11,394</b>
Net interest	(533)	(416)	(462)	(298)	(298)
JVs and associates	5,809	4,257	4,284	4,022	3,960
<b>Pretax profit</b>	<b>6,698</b>	<b>8,321</b>	<b>10,509</b>	<b>13,649</b>	<b>15,057</b>
Taxation	(857)	(1,999)	(2,403)	(3,169)	(3,460)
Minority interests	(1,331)	(3,003)	(3,994)	(5,127)	(5,914)
<b>Net profit</b>	<b>4,511</b>	<b>3,319</b>	<b>4,112</b>	<b>5,353</b>	<b>5,683</b>
Net profit (adjusted)	4,511	3,319	4,112	5,353	5,683
Basic EPS (RMB)	0.70	0.44	0.54	0.70	0.75
Diluted EPS (RMB)	0.70	0.44	0.54	0.70	0.75
DPS (RMB)	0.30	0.22	0.27	0.35	0.37

**Balance sheet (RMBm)**

Year end: Dec	2014	2015	2016E	2017E	2018E
Cash	21,923	23,946	24,145	27,635	34,730
Short term investments	-	-	-	-	-
Accounts receivables	6,422	10,949	13,138	15,109	17,375
Inventory	11,068	9,871	11,691	13,123	15,128
Other current assets	4,905	7,471	8,503	9,697	10,950
<b>Total current assets</b>	<b>44,319</b>	<b>52,237</b>	<b>57,478</b>	<b>65,564</b>	<b>78,184</b>
PP&E	34,218	38,353	42,889	47,149	51,109
Intangible Assets	8,251	11,473	14,916	18,511	22,265
Associates and JVs	14,066	14,582	15,032	15,456	15,874
Other long term assets	9,004	10,748	10,704	10,663	10,622
<b>Total long term assets</b>	<b>65,540</b>	<b>75,156</b>	<b>83,542</b>	<b>91,778</b>	<b>99,870</b>
<b>TOTAL ASSETS</b>	<b>109,859</b>	<b>127,393</b>	<b>141,019</b>	<b>157,342</b>	<b>178,054</b>
Short term debt	15,983	21,280	20,865	21,257	24,121
Accounts payables	14,978	21,382	27,797	31,967	36,762
Other current liabilities	20,539	24,965	26,976	29,076	31,341
<b>Total current liabilities</b>	<b>51,500</b>	<b>67,627</b>	<b>75,639</b>	<b>82,300</b>	<b>92,224</b>
Long term debt	13,935	8,986	7,474	6,489	5,504
Deferred tax	887	840	865	891	918
Convertible bonds					
Other long term liabilities	1,568	2,871	3,005	3,146	3,295
<b>Total long term liabilities</b>	<b>16,390</b>	<b>12,697</b>	<b>11,345</b>	<b>10,527</b>	<b>9,717</b>
<b>TOTAL LIABILITIES</b>	<b>67,890</b>	<b>80,324</b>	<b>86,983</b>	<b>92,826</b>	<b>101,941</b>
Shareholders' funds	33,355	35,010	37,983	43,335	49,018
Minority interests	8,614	12,059	16,053	21,180	27,094
<b>TOTAL LIAB AND EQUITY</b>	<b>109,859</b>	<b>127,393</b>	<b>141,019</b>	<b>157,342</b>	<b>178,054</b>
Net cash / (debt)	(7,995)	(6,320)	(4,195)	(111)	5,104

**Cash flow statement (RMBm)**

Year end: Dec	2014	2015	2016E	2017E	2018E
<b>EBIT</b>	<b>1,422</b>	<b>4,479</b>	<b>6,687</b>	<b>9,925</b>	<b>11,394</b>
Depreciation & amortisation	2,364	3,787	4,125	4,445	4,790
Net interest	533	416	462	298	298
Taxes paid	(1,365)	(1,674)	(2,403)	(3,169)	(3,460)
Changes in working capital	1,282	4,649	3,462	1,757	1,626
Others	(1,974)	(1,291)	(924)	(597)	(595)
<b>Cash flow from operations</b>	<b>2,262</b>	<b>10,365</b>	<b>11,409</b>	<b>12,659</b>	<b>14,053</b>
Capex	(9,055)	(9,220)	(8,000)	(8,000)	(8,000)
Acquisitions	(6,229)	(4,372)	(3,979)	(4,174)	(4,379)
Disposals	807	4	-	-	-
Others	4,535	5,145	3,834	3,598	3,542
<b>Cash flow from investing</b>	<b>(9,941)</b>	<b>(8,444)</b>	<b>(8,145)</b>	<b>(8,576)</b>	<b>(8,837)</b>
Dividends	(2,793)	(2,780)	(1,139)	-	-
Issue of shares	7,910	613	-	-	-
Change in debt	7,396	343	(1,926)	(594)	1,880
Others	300	1,925	-	-	-
<b>Cash flow from financing</b>	<b>12,813</b>	<b>102</b>	<b>(3,066)</b>	<b>(594)</b>	<b>1,880</b>
<b>Change in cash</b>	<b>5,133</b>	<b>2,023</b>	<b>198</b>	<b>3,490</b>	<b>7,095</b>
Free cash flow	(6,793)	1,145	3,409	4,659	6,053

**Key ratios**

Year end: Dec	2014	2015	2016E	2017E	2018E
<b>Operating ratios</b>					
Gross margin	15.9	18.2	19.1	20.2	20.3
EBITDA margin (%)	4.0	8.3	9.5	11.0	11.4
Effective tax rate (%)	12.8	24.0	22.9	23.2	23.0
Revenue growth (%)	34.10	49.2	16.0	22.3	13.4
Net income growth (%)	66.2	(26.4)	23.9	30.2	6.2
EPS growth adj (%)	45.3	(37.8)	23.9	30.2	6.2
DPS growth (%)	(15.7)	(27.9)	23.8	30.2	6.2
<b>Efficiency ratios</b>					
ROE (%)	13.5	9.5	10.8	12.4	11.6
ROCE (%)	2.2	6.0	8.0	10.8	11.4
Asset turnover (x)	0.5	0.7	0.7	0.8	0.8
Op cash / EBIT (x)	1.6	2.3	1.7	1.3	1.2
Depreciation / CAPEX (x)	0.3	0.4	0.5	0.6	0.6
Accounts receivable days	40.2	37.7	45.1	43.2	43.8
Accounts payable days	100.5	96.4	113.8	114.6	116.3
<b>Leverage ratios</b>					
Net gearing (%)	24.0	18.1	11.0	0.3	(10.4)
Net debt / EBITDA (x)	3.6	0.9	0.5	0.0	(0.3)
Interest cover (x)	2.7	10.8	14.5	33.3	38.3
Current ratio (x)	0.9	0.8	0.8	0.8	0.8
<b>Valuation</b>					
PER (x)	7.1	11.3	9.2	7.0	6.6
EV/EBITDA (x)	19.8	6.4	4.8	3.4	2.9
PBR (x)	0.8	0.8	0.7	0.6	0.5
Dividend yield (x)	6.1	4.4	5.5	7.1	7.5



## Research

**LIU Taisheng, Steven**  
TMT  
(852) 3465 5652  
stevenliu@csci.hk

**SO Lai Shan, Jennifer**  
Consumer  
(852) 3465 5781  
jenniferso@csci.hk

**CHAN Ka Yeung, Duncan**  
Commodity  
(852) 3465 5654  
chankayeung@csci.hk

**TIAN Yang**  
Automotive  
(852) 3465 5775  
tianyong@csci.hk

**SUN Lingxiao, Roger**  
Industrials  
(852) 3465 5785  
rogersun@csci.hk

**XU Bo, Albert**  
Financials  
(852) 3465 5789  
albertxu@csci.hk

**ZHU Kexin**  
Renewable energy  
(852) 3465 5653  
zhukexin@csci.hk

## Institutional Sales & Trading

**XIANG Xinrong, Ron**  
(852) 3465 5633  
ronxiang@csci.hk

**CAO Xiaogang, Glen**  
(852) 3465 5658  
caoxiaogang@csci.hk

**ZHANG Meng, Maurice**  
(852) 3465 5656  
mauricezhang@csci.hk

**HO Wen Hao, Jack**  
(852) 3465 5685  
jackho@csci.hk

**HO Hung Wei**  
(852) 3465 5687  
hohungwei@csci.hk

**LEE Ying Ju, Rose**  
(852) 3465 5707  
roselee@csci.hk

**AO Yiyu, Diana**  
(852) 3465 5708  
dianaao@csci.hk

**WANG Fei, Sophie**  
(852) 3465 5709  
sophiewang@csci.hk

**XIA Tian**  
(852) 3465 5670  
xiatian@csci.hk

## Company Rating Definition

The Benchmark: Hong Kong Hang Seng Index; Time Horizon: 12 months

<b>Buy</b>	12-month absolute total return: $\geq 10\%$
<b>Hold</b>	12-month absolute total return: $> -10\%$ but $< 10\%$
<b>Sell</b>	12-month absolute total return: $\leq -10\%$

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### China Securities (International) Research

18/F, Two Exchange Square, Central, Hong Kong

Tel: (852) 34655600 Fax: (852) 21809495