

## Dah Chong Hong

Cutting PT to HK\$4.3 - Waiting for recovery in PRC motor business

**Dah Chong Hong (DCH) is a leading auto distributor in HK and China** and also a major food distributor. The company reported FY14 results with sales rising 10.0% Y/Y (slightly lower than JPM expectations by 2.7%) and net profit declining 12% (8.2% lower than expectations), mainly dragged down by the motor business segment in PRC. We are maintaining our Neutral rating with a new Dec-15 PT of HK\$4.3.

- **Not out of the woods yet.** The 2014 results were quite poor, mainly attributable to the poor demand in China for most of the year. Our auto team has already seen some recovery in auto demand and has been quite positive on demand for this CNY. We need to see more evidence of strong demand for DCH's China dealership business before becoming more positive on the company. We should see demand recovering at the OEM auto makers before sales and margins start to improve for DCH.
- **Lower estimates and PT.** We lower our FY15/16 sales estimates by 4.0%/4.2% due to the lower than expected China auto sales in FY14. We cut our EBIT margins assumptions by 0.5% pt to 3.2% in FY15 compared to 3.0% in FY14 and our prev. estimate of 3.7% for FY15. Our PT is lowered to HK\$4.3 due to the changes in earnings estimates.
- **Valuation, price target and risks.** Our new DCF-based Dec-15 PT of HK\$4.3 implies a 12-month fwd P/E of 7.4. The key downside risk to our PT includes licensing restrictions on new cars in major cities and the key upside risk is a faster-than-expected recovery in the Chinese economy, boosting demand for passenger vehicles.

**Neutral**

1828.HK, 1828 HK

Price: HK\$4.20

▼ **Price Target: HK\$4.30**  
Previous: HK\$5.00

**China**

**SMID-Caps**

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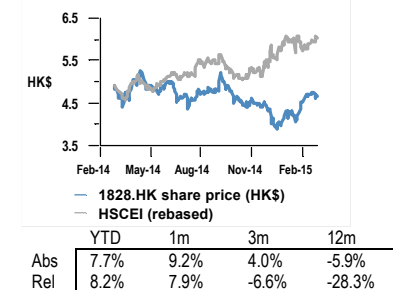
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**Price Performance**



**Dah Chong Hong (Reuters: 1828.HK, Bloomberg: 1828 HK)**

HK\$ in mn, year-end Dec	FY12A	FY13A	FY14A	FY15E	FY16E
Revenue (HK\$ mn)	48,014	42,261	46,489	49,941	53,699
Net Profit (HK\$ mn)	1,046	901	750	862	1,057
EPS (HK\$)	0.57	0.49	0.41	0.47	0.58
DPS (HK\$)	0.21	0.18	0.15	0.18	0.21
Revenue growth (%)	4.1%	(12.0%)	10.0%	7.4%	7.5%
EPS growth (%)	(21.2%)	(13.9%)	(16.8%)	14.9%	22.3%
ROCE	8.0%	6.7%	6.1%	6.5%	7.4%
ROE	12.3%	10.1%	8.2%	9.0%	10.4%
P/E (x)	7.3	8.5	10.2	8.9	7.3
P/BV (x)	0.9	0.9	0.8	0.8	0.7
EV/EBITDA (x)	5.1	7.3	8.4	7.7	6.8
Dividend Yield	5.1%	4.4%	3.6%	4.2%	5.1%

Source: Company data, Bloomberg, J.P. Morgan estimates.

Company Data	
Shares O/S (mn)	1,821
Market Cap (HK\$ mn)	7,648
Market Cap (\$ mn)	986
Price (HK\$)	4.20
Date Of Price	02-Mar-15
Free Float(%)	-
3M - Avg daily vol (mn)	1.77
3M - Avg daily val (HK\$ mn)	7.68
3M - Avg daily val (\$ mn)	1.0
HSCEI	1,2185.85
Exchange Rate	7.76
Price Target End Date	31-Dec-15

**See page 11 for analyst certification and important disclosures, including non-US analyst disclosures.**

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**Key catalysts for the stock price:**

- Better monthly passenger vehicle sales numbers after the CNY holidays
- Pickup in commercial vehicle sales over the next few months
- Impact of new government licensing policies in major cities in 2015

**Upside risks to our view:**

- A faster-than-expected recovery in the economy in China boosting demand for passenger vehicles
- A recovery on commercial vehicles as housing construction picks up
- Faster-than-expected rollout of new 4S outlets

**Downside risks to our view:**

- The key downside risk to our PT include licensing restrictions on new cars in major cities
- More sales disruptions for the Japanese auto business
- Increasing competition from other domestic chain outlets

Key financial metrics	FY13	FY14	FY15E	FY16E
Revenues (LC)	42,261	46,489	49,941	53,699
Revenue growth (%)	-12.0%	10.0%	7.4%	7.5%
EBITDA (LC)	1,945	1,934	2,112	2,401
EBITDA margin (%)	4.6%	4.2%	4.2%	4.5%
Tax rate (%)	27%	25%	25%	25%
Net profit (LC)	901	750	862	1,057
EPS (LC)	0.494	0.411	0.472	0.577
EPS growth (%)	-13.9%	-16.8%	14.9%	22.3%
DPS (LC)	0.18	0.15	0.18	0.21
BVPS (LC)	4.94	5.36	5.42	5.78
Operating cash flow (LC mn)	(278)	(551)	1,250	1,455
Free cash flow (LC mn)	(950)	(1,113)	902	1,155
Interest cover (x)	8	7	6	7
Net margin (%)	2.1%	1.6%	1.7%	2.0%
Sales/assets (X)	1.98	2.05	2.05	2.09
Debt/equity (%)	79.2%	84.9%	83.4%	77.7%
Net debt/equity (%)	56.0%	70.2%	69.2%	62.9%
ROE (%)	10%	8%	9%	10%

Key model assumptions	FY14	FY15E	FY14E	FY15E
Motor sales growth	4.6%	5.5%	5.3%	5.1%
Food sales growth	1.3%	1.6%	1.6%	1.5%
Motor GPM	26.5%	36.1%	33.6%	29.4%

Source: Company and J.P. Morgan estimates.

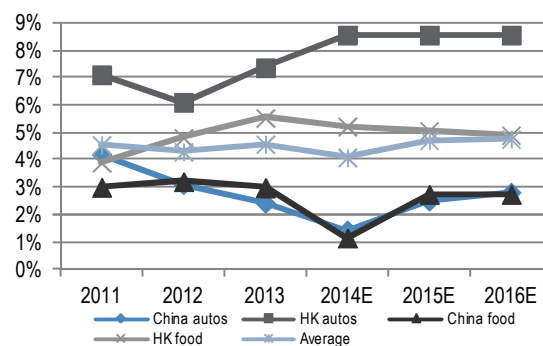
Sensitivity analysis	EBITDA		EPS	
Sensitivity to	FY15E	FY16E	FY15E	FY16E
Motor sales growth	2.2%	2.1%	5.3%	5.1%
Food sales growth	0.7%	0.6%	1.6%	1.5%
Motor GPM	14.0%	12.2%	33.6%	29.4%
Food GPM	14.0%	12.2%	33.6%	29.4%

Source: J.P. Morgan estimates.

**Valuation and price target basis**

Our Dec-15 price target is based on DCF valuation that assumes a beta of 1.2. Accordingly, we assume a WACC of 11.4%. We estimate free cash flow until 2015 and assume a terminal growth rate of 3.0%.

**EBIT margin trends**



Source: Company data, J.P. Morgan estimates.

**JPM vs. consensus, change in estimates**

EPS (LC)	FY15E	FY16E
JPMe old	0.60	0.72
JPMe new	0.47	0.58
% chg	-22%	-20%
Consensus	0.55	0.62

Source: Bloomberg, J.P. Morgan estimates.

**Peer comparison—Auto distribution**

Companies	Ticker	Price, LC	MCAP US\$MM	Vol US\$MM	1W chg	3M chg	14E P/E (x)	15E P/E(x)	13E ROE (%)	13E P/B (x)	13E Yld (%)
DCH (N)*	1828 HK	4.64 (4.3)	881	0.8	(10.6)	(2.8)	10.3	9.0	10.1	0.9	5.2
ZHENG TONG (OW)	1728 HK	4.08 (5.2)	1,163	1.2	(0.2)	9.1	6.9	5.7	12.9	1.5	2.4
BAOXIN AUTO (N)	1293 HK	5.16 (5.6)	1,619	1.5	0.0	(3.7)	9.2	8.1	20.6	3.1	3.0
<b>Average</b>					<b>(4.1)</b>	<b>(2.9)</b>	<b>9.0</b>	<b>7.7</b>	<b>14.0</b>	<b>2.0</b>	<b>3.1</b>

Source: Bloomberg, J.P. Morgan estimates. (\*) Under SMID-Caps team coverage. Share prices are as of Feb 27, 2015

## Highlights from the analyst briefing

- Motor business in China.** The business reported 11% increase in revenue but segment margin declined by 1% pt compared to FY13 due to larger discount on selling price and higher marketing and staff expenses at outlets (margins in 4Q were particularly low). For the PRC market, passenger cars reported 16.9% y/y increase, offsetting the 6.5% decline from commercial vehicles revenue. The company added 6 4S greenfields and acquired 2 new shops (GQ Honda and Taizhou), reaching 79 4S shops by end of 2014 (FY13: 75) and 82 at the end of Feb 2015. Management mention that shop expansion may be a little bit slower than previously planned given current market situation.
- Motor business in Hong Kong.** The business reported 13.3% increase in revenue with segment margin up 0.2% p.t, mainly driven by the 53.9% revenue generated from commercial vehicle sales under HKSAR Gov's HK\$11.4bn ex-gratia payment scheme. Thus market share in Hong Kong rose by 1.8% pt in FY14 to 22.6%. 2H margin was less than 1H due to seasonal factors as there are higher SG&A costs associated with more promotional activities.
- Food business.** Management mentioned that DCH will introduce more FMCG products for midstream distribution. They will also devote greater efforts for e-commerce business to better utilize their warehouses and logistic assets. They have launched DCHnYou ecommerce initiative in 4Q14.

## Results Summary

Interim results (HKDm)	FY13	FY14A	Growth	FY14E	Variance
Turnover	42,261	46,489	10.0%	47,778	-2.7%
Gross profit	4,872	5,254	7.8%	5,299	-0.9%
GPM	11.5%	11.3%		11.1%	
EBIT	1451	1405	-3.2%	1,599	-12.1%
EBITM	3.4%	3.0%		3.3%	
Net profit	934	822	-12.0%	895	-8.2%
EPS (HKD)	0.49	0.41	-16.6%	0.49	-16.4%

Source: J.P. Morgan estimates; Company data.

The company reported FY14 results with sales rising 10.0% Y/Y (slightly lower than JPM and consensus expectations by 2.7% and 1.0%) and net profit declining 12% (8.2% lower than expectations and 14.1% lower than consensus), which is mainly dragged down by the motor business segment in PRC. There are no reliable 1H14 consensus estimates but our full-year 2014 net profit estimate is 6.5% below consensus.

## Net profits revised down 22% for FY15E and 20% for FY16E

Year to Dec (HKDm)	New		Old		Change	
	FY15E	FY16E	FY15E	FY16E	FY15E	FY16E
Turnover	49,941	53,699	52,005	56,032	-4.0%	-4.2%
Gross profit	5,714	6,309	5,927	6,560	-3.6%	-3.8%
EBIT	1,579	1,863	1,899	2,220	-16.8%	-16.1%
Net profit	862	1,057	1,103	1,319	-21.9%	-19.9%
EPS (HKD)	0.472	0.577	0.605	0.720	-21.9%	-19.8%
<b>Assumptions</b>						
Gross margin	11.4%	11.7%	11.4%	11.7%	0.0%	0.0%

Source: J.P. Morgan estimates

We are lowering our FY15E and FY16E sales by 4.0% and 4.2%, respectively, to reflect a slower-than-expected recovery in China auto sales. We are lowering our FY15E and FY16E net profit by 21.9% and 19.9%, respectively, to reflect the tougher sales environment in China as indicated by the falling EBIT margin and uncertainty as to when margins may recover.

Our DCF-based Dec-15 share price target is set at HK\$4.3 (previously Dec 14 PT of HK\$5.0) due to the earnings estimates revisions.

## Valuation and share price analysis

### DCF valuation

Our Dec-15 price target is based on a DCF valuation that assumes a market risk premium of 6.0% and a risk-free rate of 4.2% (yield on 10-year government notes in China). We assume a beta of 1.2. Accordingly, we assume a WACC of 11.4%. We estimate free cash flow until 2020 and assume a terminal growth rate of 3.0%. The terminal growth is based on the annual growth rate expected in 2020 (the final year of the estimate period) subject to a minimum of 3% and a maximum of 6%, depending on the nature of the industry and the level of maturity in China.

We also analyze the DCF price sensitivity to WACC and the terminal multiple.

Table 1: DCH—Base-case DCF analysis

HK\$MM	2013E	2014E	2015E	2016E	2017E	2018E	2019E	Terminal
<b>Cash flow estimates</b>								
Sales	42,261	46,489	49,941	53,699	57,411	61,101	64,814	68,589
EBIT	1,451	1,405	1,579	1,863	2,097	2,343	2,602	2,846
NOPAT	956	1,000	1,151	1,355	1,524	1,701	1,888	2,063
Capex, net	(952)	(596)	(597)	(548)	(562)	(542)	(526)	(495)
Depreciation	494	529	533	538	540	541	540	537
Change in working capital	(1,707)	(2,145)	(590)	(634)	(731)	(695)	(289)	(381)
<b>Free CF (excl. non-core)</b>	<b>(1,209)</b>	<b>(1,213)</b>	<b>496</b>	<b>712</b>	<b>774</b>	<b>1,008</b>	<b>1,618</b>	<b>1,728</b>
<b>DCF Parameters</b>								
Liabilities as a % of EV	0%	<b>Assumptions</b>			Terminal growth			
WACC	11.4%				Risk-free rate			
<b>Enterprise NPV (10E-16E)</b>								
+ Net cash (debt), current	(7,187)				Market risk			
- Minorities (Market value)	(797)				Beta			
+/- Other items	0				Cost of debt			
<b>= Equity value</b>	<b>7,862</b>				Implied exit P/E multiple (x)			
/ Number of shares	1,821				12.3			
<b>= Equity value per share (HK\$)</b>	<b>4.3</b>							

Source Company data, J.P. Morgan estimates.

Table 2: DCH—Sensitivity analysis based on WACC and perpetual terminal growth rate

		Terminal growth rate							
		1.5%	2%	2.5%	3.0%	3.5%	4.0%	4.5%	
WACC	9.9%	4.8	5.3	5.8	6.4	7.1	7.9	8.9	
	10.4%	4.2	4.6	5.1	5.6	6.2	6.9	7.7	
	10.9%	3.7	4.1	4.5	4.9	5.4	6.0	6.7	
	11.4%	3.3	3.6	3.9	4.3	4.8	5.3	5.8	
	11.9%	2.9	3.1	3.4	3.8	4.2	4.6	5.1	
	12.4%	2.5	2.7	3.0	3.3	3.6	4.0	4.4	
	12.9%	2.1	2.4	2.6	2.9	3.2	3.5	3.9	

Source: Company data, J.P. Morgan estimates.

## Financial analysis

Table 3: DCH—Revenue mix

HK\$MM, year-end Dec	2012	2013	2014E	2015E	2016E
Sales of motor and motor related	38,611	32,627	36,012	38,548	41,331
YoY	3.8%	-15.5%	10.4%	7.0%	7.2%
% of total	80.4%	77.2%	77.5%	77.2%	77.0%
Sales of food and consumer	8,908	9,595	10,444	11,358	12,332
YoY	5.6%	7.7%	8.8%	8.8%	8.6%
% of total	18.6%	22.7%	22.5%	22.7%	23.0%
Sales of logistics business	407	42	33	35	36
YoY	18.7%	-89.7%	-21.4%	5.0%	5.0%
% of total	0.8%	0.1%	0.1%	0.1%	0.1%
Sales of other business	88	114	0	0	0
YoY	-41.3%	30.0%	-100.0%	N.A	N.A
% of total	0.2%	0.3%	0.0%	0.0%	0.0%
<b>Total</b>	<b>48,014</b>	<b>42,261</b>	<b>46,489</b>	<b>49,941</b>	<b>53,699</b>

Source: Company data, J.P. Morgan estimates.

Table 4: DCH—P&L statement

HK\$ MM, year-end March	2012	2013	2014	2015E	2016E	2017E
<b>Total Revenues</b>	<b>48,014</b>	<b>42,261</b>	<b>46,489</b>	<b>49,941</b>	<b>53,699</b>	<b>57,411</b>
YoY change (%)	4.1%	-12.0%	10.0%	7.4%	7.5%	6.9%
Cost of Goods Sold	(42,411)	(37,389)	(41,235)	(44,227)	(47,390)	(50,561)
YoY change (%)	3.6%	-11.8%	10.3%	7.3%	7.2%	6.7%
Gross Profit	5,603	4,872	5,254	5,714	6,309	6,850
YoY change (%)	8.5%	-13.0%	7.8%	8.8%	10.4%	8.6%
Gross Margin	11.7%	11.5%	11.3%	11.4%	11.7%	11.9%
SGA	(4,491)	(4,242)	(4,772)	(5,126)	(5,512)	(5,893)
YoY change (%)	18.2%	-5.5%	12.5%	7.4%	7.5%	6.9%
Other Income/(Expenses)	663	821	923	992	1,066	1,140
Operating profit	1,775	1,451	1,405	1,579	1,863	2,097
<b>EBITDA</b>	<b>2,400</b>	<b>1,945</b>	<b>1,934</b>	<b>2,112</b>	<b>2,401</b>	<b>2,637</b>
EBITDA margin	5.0%	4.6%	4.2%	4.2%	4.5%	4.6%
Depreciation & Amortization	(625)	(494)	(529)	(533)	(538)	(540)
YoY change (%)	75.0%	-20.9%	7.2%	0.7%	0.9%	0.4%
<b>EBIT</b>	<b>1,775</b>	<b>1,451</b>	<b>1,405</b>	<b>1,579</b>	<b>1,863</b>	<b>2,097</b>
EBIT margin	3.7%	3.4%	3.0%	3.2%	3.5%	3.7%
Net Interest Expense	(326)	(234)	(268)	(334)	(334)	(334)
Exceptional item	66	33	(54)	0	0	0
Associates	12	24	11	12	13	14
Gains/losses	0	0	0	0	0	0
Net Income Before Taxes	1,527	1,274	1,094	1,257	1,542	1,777
YoY change (%)	-18.1%	-16.6%	-14.1%	14.9%	22.7%	15.2%
Tax	(516)	(340)	(272)	(313)	(383)	(442)
Effective Tax rate	33.8%	26.7%	24.9%	24.9%	24.9%	24.9%
Minority Interests	35	(33)	(72)	(83)	(101)	(117)
<b>Net Income</b>	<b>1,046</b>	<b>901</b>	<b>750</b>	<b>862</b>	<b>1,057</b>	<b>1,218</b>
YoY change (%)	-21.0%	-13.9%	-16.8%	14.9%	22.7%	15.2%
Net margin	2.2%	2.1%	1.6%	1.7%	1.9%	2.1%

Source: Company data, J.P. Morgan estimates.

Table 5: Interim estimates

HK\$ MM, year-end March	1H13	2H13	1H14	2H14	1H15E	2H15E
Total Revenues	18,935	23,326	22,094	24,395	25,791	24,150
Gross Profit	2,343	2,529	2,659	2,595	3,142	2,572
EBIT	637	814	755	650	922	657
Net Income Before Taxes	554	720	612	482	734	523
Net Income	401	500	430	320	503	359
Diluted EPS (HK\$)	0.220	0.27	0.236	0.18	0.276	0.20
<b>Ratios</b>						
Revenue split	44.8%	55.2%	47.5%	52.5%	51.6%	48.4%
GPM	12.4%	10.8%	12.0%	10.6%	12.2%	10.6%
EBIT margin	3.4%	3.5%	3.4%	2.7%	3.6%	2.7%
NPM	2.1%	2.1%	1.9%	1.3%	2.0%	1.5%
<b>YoY</b>						
Revenue	-19.9%	-4.3%	16.7%	4.6%	16.7%	-1.0%
GP	-16.2%	-9.9%	13.5%	2.6%	18.2%	-0.9%
EBIT	-33.3%	-0.7%	18.5%	-20.1%	22.1%	1.1%
NP	-36.2%	19.9%	7.2%	-36.0%	17.0%	12.1%

Source: Company data, J.P. Morgan estimates.

Table 6: DCH—Balance sheet

HK\$ MM, year-end march	2012	2013	2014	2015E	2016E	2017E
Cash and Cash Equivalents	3,225	2,173	1,493	1,474	1,643	1,795
Inventories	5,536	6,259	8,723	9,371	10,076	10,772
Accounts receivable	5,464	6,483	6,668	7,163	7,702	8,235
Other Current Assets	47	246	5	168	196	373
<b>Total Current Assets</b>	<b>14,956</b>	<b>15,161</b>	<b>16,889</b>	<b>18,176</b>	<b>19,618</b>	<b>21,175</b>
Intangible Assets	344	720	799	799	799	799
Property and Equipment, Net	3,923	4,164	4,195	4,259	4,270	4,292
Other Assets	1,767	1,581	1,748	1,750	1,752	1,754
Non-Current assets	6,034	6,465	6,742	6,808	6,820	6,844
<b>Total Assets</b>	<b>20,990</b>	<b>21,626</b>	<b>23,631</b>	<b>24,984</b>	<b>26,438</b>	<b>28,019</b>
Accounts Payable	4,556	4,465	4,817	5,175	5,564	5,949
Other Accrued Expenses	191	0	158	313	540	796
Taxes Payable	219	121	166	207	277	336
ST and current LT debts	3,471	5,608	5,402	6,542	6,542	6,542
<b>Total Current Liabilities</b>	<b>8,437</b>	<b>10,194</b>	<b>10,385</b>	<b>12,236</b>	<b>12,924</b>	<b>13,622</b>
Long-term Debt	2,938	1,816	3,259	2,119	2,119	2,119
Other Noncurrent Liability	246	243	243	243	243	243
Noncurrent liabilities	3,184	2,059	3,502	2,362	2,362	2,362
<b>Total Liabilities</b>	<b>11,621</b>	<b>12,253</b>	<b>13,868</b>	<b>14,598</b>	<b>15,286</b>	<b>15,984</b>
Share capital	273	275	1,477	1,477	1,477	1,477
Reserves and Surplus	8,565	8,719	7,845	8,386	9,050	9,816
<b>Total Shareholders' Equity</b>	<b>8,838</b>	<b>8,994</b>	<b>9,763</b>	<b>9,863</b>	<b>10,527</b>	<b>11,293</b>
Minority Interest	531	379	441	524	625	742
<b>Total Shareholders' Equity</b>	<b>9,369</b>	<b>9,373</b>	<b>9,763</b>	<b>10,386</b>	<b>11,152</b>	<b>12,035</b>
<b>Total Liabilities and Equity</b>	<b>20,990</b>	<b>21,626</b>	<b>23,631</b>	<b>24,984</b>	<b>26,438</b>	<b>28,019</b>

Source: Company data, J.P. Morgan estimates.

Table 7: DCH—Cash flow statement

HK\$ MM, year-end march	2012	2013	2014	2015E	2016E	2017E
EBIT	1,775	1,451	1,405	1,579	1,863	2,097
Depreciation and Amortization	625	494	529	533	538	540
Working Capital Changes	(138)	(1,707)	(2,145)	(590)	(634)	(731)
Tax Paid	(498)	(516)	(340)	(272)	(313)	(383)
Cash Flow From Operations	1,763	(512)	(819)	916	1,121	1,189
Capital expenditures	(1,052)	(952)	(596)	(597)	(548)	(562)
Investments and others	(74)	104	(198)	(37)	(46)	(54)
Net Interest	(326)	(234)	(268)	(334)	(334)	(334)
Cash Flow from Investing	(1,452)	(744)	(708)	(672)	(641)	(669)
<b>Free Cash Flow</b>	<b>312</b>	<b>(1,360)</b>	<b>(1,329)</b>	<b>281</b>	<b>526</b>	<b>574</b>
Dividends	(441)	(321)	(308)	(300)	(357)	(423)
Common issue	0	0	0	0	0	0
Debt	500	1,637	1,237	0	0	0
Other Financing	0	(692)	0	0	0	0
Cash Flow from financing	59	624	1,040	(300)	(357)	(423)
Change in cash	371	(1,057)	(680)	(19)	169	151
Cash beginning	2,854	3,225	2,173	1,493	1,474	1,643
Foreign exchange changes	0	5	0	0	0	0
<b>Cash at end</b>	<b>3,225</b>	<b>2,173</b>	<b>1,493</b>	<b>1,474</b>	<b>1,643</b>	<b>1,795</b>

Source: Company data, J.P. Morgan estimates.



## Investment Thesis, Valuation and Risks

### Dah Chong Hong *(Neutral; Price Target: HK\$4.30)*

#### **Investment Thesis**

Nearly 60% of 2013 sales are related to auto sales in China and the health of this industry is the key determinant for the performance of DCH. Controlling pollution is at the forefront of public policies and any new rules concerning limiting the number of new vehicles would be detrimental to the auto dealership industry in China. DCH also intends to achieve growth in food distribution in the region as well as auto distribution outside of China.

#### **Valuation**

Our Dec-15 price target is based on a DCF valuation that assumes a market risk premium of 6.0% and a risk-free rate of 4.2% (yield on 10-year government notes in China). We assume a beta of 1.2. Accordingly, we assume a WACC of 11.4%. We estimate free cash flow until 2015 and assume a terminal growth rate of 3.0%.

#### **Risks to Rating and Price Target**

The key downside risks to our PT include licensing restrictions on new cars in major cities as well as any further disruption to the sale of Japanese vehicles due to political tensions between the two countries. The key upside risk includes a faster-than-expected recovery in the economy in China boosting demand for passenger vehicles.

## Dah Chong Hong: Summary of Financials

Income Statement						Cash flow statement					
HK\$ in millions, year end Dec	FY13	FY14	FY15E	FY16E	FY17E	HK\$ in millions, year end Dec	FY13	FY14	FY15E	FY16E	FY17E
Revenues	42,261	46,489	49,941	53,699	57,411	EBIT	1,451	1,405	1,579	1,863	2,097
% change Y/Y	(12.0%)	10.0%	7.4%	7.5%	6.9%	Depr. & amortization	494	529	533	538	540
Gross Profit	5,366	5,783	6,247	6,847	7,390	Change in working capital	(1,707)	(2,145)	(609)	(634)	(731)
% change Y/Y	(13.8%)	7.8%	8.0%	9.6%	7.9%	Taxes	(516)	(340)	(272)	(313)	(383)
EBITDA	1,945	1,934	2,112	2,401	2,637	Cash flow from operations	(278)	(551)	1,231	1,455	1,523
% change Y/Y	(19.0%)	(0.5%)	9.2%	13.7%	9.8%	Capex	(952)	(596)	(597)	(548)	(562)
EBIT	1,451	1,405	1,579	1,863	2,097	Net Interest	(234)	(268)	(334)	(334)	(334)
% change Y/Y	(18.3%)	(3.2%)	12.4%	18.0%	12.6%	Other	(5)	253	(35)	(44)	(52)
EBIT Margin	3.4%	3.0%	3.2%	3.5%	3.7%	Free cash flow	(950)	(1,113)	883	1,155	1,210
Net Interest	(234)	(268)	(334)	(334)	(334)	Equity raised/(repaid)	0	0	0	0	0
Earnings before tax	1,274	1,094	1,257	1,542	1,777	Debt raised/(repaid)	1,637	1,218	19	0	0
% change Y/Y	(16.6%)	(14.1%)	14.9%	22.7%	15.2%	Other	(692)	130	0	0	0
Tax	(340)	(272)	(313)	(383)	(442)	Dividends paid	(321)	(308)	(300)	(357)	(423)
as % of EBT	26.7%	24.9%	24.9%	24.9%	24.9%	Beginning cash	3,225	2,173	1,493	1,474	1,643
Net income (reported)	901	750	862	1,057	1,218	Ending cash	2,173	1,493	1,474	1,643	1,795
% change Y/Y	(13.9%)	(16.8%)	14.9%	22.7%	15.2%	DPS	0.18	0.15	0.18	0.21	0.25
Shares outstanding	1,825	1,825	1,825	1,831	1,831						
EPS (reported)	0.49	0.41	0.47	0.58	0.67						
% change Y/Y	(13.9%)	(16.8%)	14.9%	22.3%	15.2%						
Balance sheet						Ratio Analysis					
HK\$ in millions, year end Dec	FY13	FY14	FY15E	FY16E	FY17E	HK\$ in millions, year end Dec	FY13	FY14	FY15E	FY16E	FY17E
Cash and cash equivalents	2,173	1,493	1,474	1,643	1,795	Gross margin	12.7%	12.4%	12.5%	12.8%	12.9%
Accounts receivable	6,483	6,668	7,163	7,702	8,235	EBITDA margin	4.6%	4.2%	4.2%	4.5%	4.6%
Inventories	6,259	8,723	9,371	10,076	10,772	Operating margin	3.4%	3.0%	3.2%	3.5%	3.7%
Others	246	5	168	196	373	Net margin	2.1%	1.6%	1.7%	2.0%	2.1%
Current assets	15,161	16,889	18,176	19,618	21,175	Sales per share growth	(12.0%)	10.0%	7.4%	7.2%	6.9%
LT investments	0	0	0	0	0	Sales growth	(12.0%)	10.0%	7.4%	7.5%	6.9%
Net fixed assets	4,164	4,195	4,259	4,270	4,292	Net profit growth	(13.9%)	(16.8%)	14.9%	22.7%	15.2%
Total Assets	21,626	23,631	24,984	26,438	28,019	EPS growth	(13.9%)	(16.8%)	14.9%	22.3%	15.2%
Liabilities						Interest coverage (x)	8.3	7.2	6.3	7.2	7.9
Short-term loans	5,608	5,402	6,542	6,542	6,542	Net debt to equity	56.0%	73.4%	69.2%	62.9%	57.1%
Payables	4,465	4,817	5,175	5,564	5,949	Working Capital to Sales	0.1	0.1	0.1	0.1	0.1
Others	121	166	519	818	1,131	Sales/assets	2.0	2.1	2.1	2.1	2.1
Total current liabilities	10,194	10,385	12,236	12,924	13,622	Assets/equity	2.4	2.5	2.5	2.5	2.5
Long-term debt	1,816	3,259	2,119	2,119	2,119	ROE	10.1%	8.2%	9.0%	10.4%	11.2%
Other liabilities	243	224	243	243	243	ROCE	6.7%	6.1%	6.5%	7.4%	8.1%
Total Liabilities	12,253	13,868	14,598	15,286	15,984						
Shareholders' equity	9,373	9,763	10,386	11,152	12,035						
BVPS	4.94	5.12	5.42	5.78	6.20						

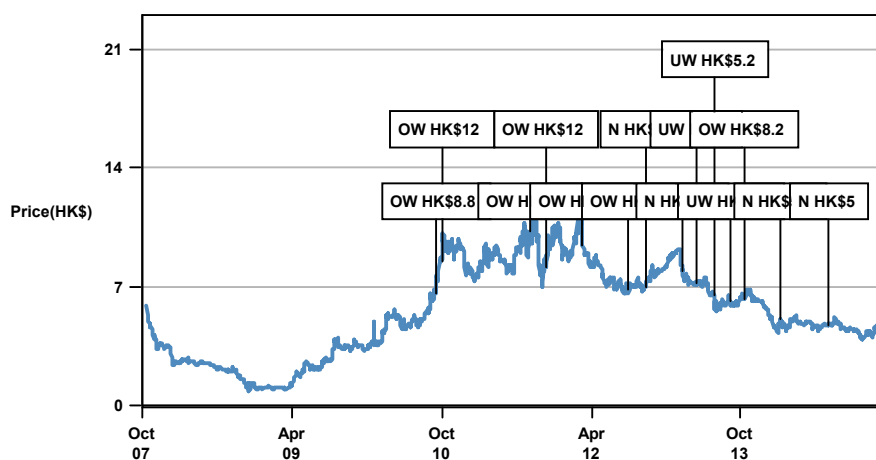
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Dah Chong Hong (1828.HK, 1828 HK) Price Chart



Date	Rating	Share Price (HK\$)	Price Target (HK\$)
07-Sep-10	OW	6.60	8.80
29-Sep-10	OW	8.52	12.00
19-Aug-11	OW	10.28	14.00
19-Oct-11	OW	8.16	12.00
01-Mar-12	OW	9.47	11.00
16-Aug-12	OW	6.85	9.00
17-Oct-12	N	7.00	6.80
27-Feb-13	N	7.93	7.10
16-Apr-13	UW	7.22	6.00
21-Jun-13	UW	6.50	5.20
19-Aug-13	UW	6.15	6.30
11-Oct-13	OW	6.25	8.20
20-Feb-14	N	5.05	5.10
14-Aug-14	N	4.74	5.00

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends. Initiated coverage Sep 07, 2010.

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