

Industrials
Autos
 Equity – China

Neutral

Target price (HKD)	15.20
Share price (HKD)	15.26
Forecast dividend yield (%)	0.9
Potential return (%)	0.5

Note: Potential return equals the percentage difference between the current share price and the target price, plus the forecast dividend yield

Performance	1M	3M	12M
Absolute (%)	4.1	24.5	45.3
Relative ^A (%)	6.1	19.1	14.7

Index^A HSCEI

RIC 1114.HK
 Bloomberg 1114 HK

Market cap (USDm) 9,878
 Market cap (HKDm) 76,693

Enterprise value (CNYm) 45,965
 Free float (%) 44

Note: (V) = volatile (please see disclosure appendix)

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Brilliance Auto (1114 HK)

N: No surprises from BMW 4Q14 results

- ▶ **BMW 4Q14 results disclosure showed that BMW Brilliance's earnings +61%YoY to Rmb10,778m in FY14**
- ▶ **Pressure from rising competition could come before potential FX benefits**
- ▶ **Neutral with TP of HKD15.20 based on 10.9x 2015e PE**

BMW Brilliance results largely in-line with our forecast. BMW AG reported its 4Q14/FY14 results on 18 Mar. Net income contribution from 50:50 JV BMW Brilliance rose 60%YoY Eur658m in FY14. Applying BMW disclosed average exchange rate the earnings contribution from BMW Brilliance grew 61%YoY to Rmb10,778m, largely in line with our forecasts of RMB10,929m. This suggested that Brilliance FY14 NPAT would be at c Rmb5.2bn, in-line with ours/consensus forecasts of Rmb5,243m/5,160m.

Potential positive FX impact from EUR exposure...Based on BMW's latest disclosure we estimate excluding the royalty charges which is now denominated in Rmb, 40-45% of BMW Brilliances operating expenses are associated with goods and services supplied by BMW AG and likely be denominated in EUR. However it is uncertain as to how the two partners would share the FX benefits. In addition as BMW Brilliance employs a rolling hedging policy they could have locked in the 2015 EUR exposure at a higher rate in earlier 2014 which we could only see the FX benefits (if any) starting from 2H15.

...but we could see pressure from rising competition in 2015/2016. BMW Brilliance sales volume +13.7%YoY to 49k units in Jan-Feb 2015, which is in line with our FY15 forecast of +13.4%YoY to 316k units. We believe market is aware that the product cycle of BMW Brilliance would gradually turn positive again in 2016 with the launch of 2 series active tourer in early 2016 and the model changeover of X1 in mid-2016. However we believe the launch of Audi A4 in early 2016 and Mercedes E-class in 2H16 would exert increased pressure on the aging 3 series and 5 series. Hence the competitive advantage of product cycle of BMW Brilliance could only come in 2017 instead of market consensus of 2016.

We rate the stock Neutral with TP of HKD15.20. Our TP is derived from ROE-based PE method. We believe the potential upward street earnings revisions could come from the potential FX benefits but not the largely in line BMW 4Q14 results. We believe investors should also consider the risk that as all German premium brands benefit from weakness of EUR there is risk that the FX benefits could translate to further discounting. FX benefits and booking of subsidies to dealers (which we estimate to be in 4Q14 and 2015) would be key questions during Brilliance's results briefing on 26 Mar.

Financials & valuation

Financial statements

Year to	12/2013a	12/2014e	12/2015e	12/2016e
Profit & loss summary (CNYm)				
Revenue	6,103	5,448	6,041	6,469
EBITDA	-86	-199	-300	-209
Depreciation & amortisation	-139	-221	-224	-226
Operating profit/EBIT	-225	-420	-524	-435
Net interest	-92	-108	-101	-93
PBT	3,338	5,179	5,552	6,755
HSBC PBT	3,338	5,179	5,552	6,755
Taxation	-8	-16	-19	-16
Net profit	3,387	5,243	5,613	6,819
HSBC net profit	3,387	5,243	5,613	6,819

Cash flow summary (CNYm)

Cash flow from operations	-154	-117	-235	-252
Capex	-616	-261	-263	-265
Cash flow from investment	470	896	1,516	1,645
Dividends	-394	-553	-617	-750
Change in net debt	241	-227	-664	-642
FCF equity	-880	-332	-487	-507

Balance sheet summary (CNYm)

Intangible fixed assets	670	662	655	648
Tangible fixed assets	2,347	2,480	2,527	2,573
Current assets	6,524	5,987	6,916	7,735
Cash & others	2,117	2,105	2,769	3,411
Total assets	18,990	23,128	28,494	34,725
Operating liabilities	5,321	4,957	5,418	5,671
Gross debt	1,528	1,290	1,290	1,290
Net debt	-588	-815	-1,479	-2,121
Shareholders funds	13,015	17,835	22,820	28,878
Invested capital	2,103	2,068	1,911	1,874

Ratio, growth and per share analysis

Year to	12/2013a	12/2014e	12/2015e	12/2016e
Y-o-y % change				
Revenue	3.2	-10.7	10.9	7.1
EBITDA	-1063.3			
Operating profit				
PBT	45.5	55.2	7.2	21.7
HSBC EPS	47.2	54.8	7.1	21.5

Ratios (%)

Revenue/IC (x)	3.9	2.6	3.0	3.4
ROIC	-14.5	-20.1	-26.2	-22.9
ROE	29.4	34.0	27.6	26.4
ROA	20.1	25.2	22.0	21.8
EBITDA margin	-1.4	-3.7	-5.0	-3.2
Operating profit margin	-3.7	-7.7	-8.7	-6.7
EBITDA/net interest (x)				
Net debt/equity	-4.8	-4.8	-6.8	-7.6
Net debt/EBITDA (x)	6.9	4.1	4.9	10.2
CF from operations/net debt				

Per share data (CNY)

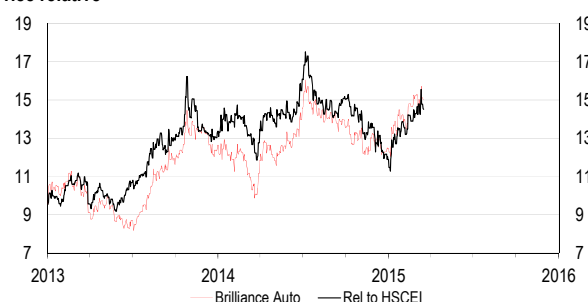
EPS reported (fully diluted)	0.67	1.04	1.11	1.35
HSBC EPS (fully diluted)	0.67	1.04	1.11	1.35
DPS	0.08	0.11	0.12	0.15
Book value	2.59	3.55	4.54	5.75

Valuation data

Year to	12/2013a	12/2014e	12/2015e	12/2016e
PE*	18.3	11.8	11.0	9.1
P/Book value	4.7	3.5	2.7	2.1
Dividend yield (%)	0.6	0.9	1.0	1.2

Note: * = Based on HSBC EPS (fully diluted)

Price relative



Note: price at close of 18 Mar 2015

FY14 results of BMW Brilliance according to BMW's disclosure

	EUR m			RMB m			HSBCe	Var%
	2014	2013	YoY%	2014	2013	YoY%		
Revenue	11,550	8,963	28.9%	94,595	73,138	29.3%	94,772	-0.2%
Profit before financial result	1,702	1,096	55.3%	13,939	8,943	55.9%		
Interest income	24	16	50.0%	197	131	50.6%		
Income tax	(449)	(285)	57.5%	(3,677)	(2,326)	58.1%		
Total comprehensive income	1,339	834	60.6%	10,966	6,805	61.1%		
BMW Brilliance profit to BMW (50% share)	658	411	60.1%	5,389	3,354	60.7%	5,464	-1.4%

Source: BMW

BMW's results from equity investments

	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	FY13	FY14	YoY%
Share of income from BMW Brilliance to BMW (EURm)	124	32	226	202	170	60	411	658	60.1%

Source: BMW, HSBC estimates

Valuation and risks

Valuation: We use a single-stage PE method to value Brilliance, based on ROE and long-term growth. We employ the following formula to derive our target valuation for the company: Target PE = $(ROE - g) \div (ROE \times [COE - g])$. Key assumptions: ROE 2015e 24.6%, CoE 11.0%, risk-free rate 3.5%, equity risk premium 6.5%, equity beta 1.16, growth 3.0%. Our ROE-derived target PE for 2015e is 10.9x. Applying our 2015e diluted EPS estimate of RMB1.11 to our target PE, we derive our target price of HKD15.20.

Key downside risks: slowdown in premium segment growth, lower-than-expected margin expansion, and market share losses to major competitors.

Key upside risks: Lower than expected procurement costs benefiting from depreciating Euro against Rmb.

Disclosure appendix

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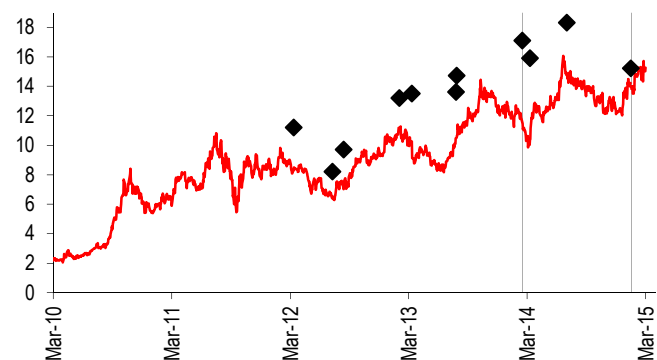
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Share price and rating changes for long-term investment opportunities

Brilliance Auto (1114.HK) Share Price performance HKD Vs HSBC rating history



Recommendation & price target history

From	To	Date
Overweight (V)	Overweight	03 March 2014
Overweight	Neutral	01 February 2015
Target Price	Value	Date
Price 1	11.20	28 March 2012
Price 2	8.20	26 July 2012
Price 3	9.70	29 August 2012
Price 4	13.20	17 February 2013
Price 5	13.50	27 March 2013
Price 6	13.60	11 August 2013
Price 7	14.70	13 August 2013
Price 8	17.10	03 March 2014
Price 9	15.90	27 March 2014
Price 10	18.30	18 July 2014
Price 11	15.20	01 February 2015

Source: HSBC

HSBC & Analyst disclosures

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Company	Ticker	Recent price	Price Date	Disclosure
BRILLIANCE AUTO	1114.HK	15.26	18-Mar-2015	6, 7

Source: HSBC

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