



Rating
Buy

Asia
China

Automobiles &
Components

Company
BAIC Motor Alert

Reuters
1958.HK

Bloomberg
1958 HK

Exchange
HSI

Ticker
1958

Date
23 March 2015

Company Update

Price at 23 Mar 2015 (HKD)	8.92
Price target - 12mth (HKD)	11.30
52-week range (HKD)	9.10 - 8.07
HANG SENG INDEX	24,375

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Analyst briefing takeaways - becoming a dividend yield play

BAIC Motor hosted a post-results analyst briefing on 23 March. Key takeaways are as follows:

- **Dividends:** BAIC Motor declared a final dividend of RMB2.3bn, implying a generous FY14 payout ratio of 50.5%. Going forward, management believes that the company will be able to sustain a high dividend payout ratio on the back of strong earnings growth prospect.

- **Beijing Benz:** The JV delivered a 25% YoY volume growth driven by GLK SUV and E-Class sedan. While the combined sales of new long wheelbase (LWB) C-Class and C-Class remained stable YoY, the monthly sales of LWB C-Class recorded 6,000 units in December 2014. Beijing Benz added 106 new dealers in FY14 with total number reaching 447 at year-end. For new models in FY15E, the JV will launch front-wheel drive GLA compact SUV, new regular wheelbase C-Class sedan and the new generation GLK SUV.

- **Beijing Hyundai:** Management is satisfied with the performance of the Hyundai JV in FY14 given capacity bottleneck. Construction of the two new plants will be completed in 2016E with additional capacity of 600,000 units. The new Ninth Generation Sonata mid-size sedan was launched in March this year and a new SUV model (new generation Tucson in our estimate) will be launched in 2H15E. BAIC expects volume contribution from mid-size sedans and SUVs to further increase going forward, thus enabling the JV to achieve stable growth.

- **Beijing Motor:** The significant gross loss margin enhancement in FY14 was due to product mix improvement, according to the management. Beijing Motor will launch five new models in FY15E, including 3 SUVs and 2 sedan models. With 1) increasing sales volume, 2) procurement cost control for new models, 3) rising utilization rate and 4) cost control, management expects the unit will be able to narrow its loss in upcoming years.

- **Auto finance:** According to BAIC, the company now has 35% ownership in Mercedes-Benz Leasing. Management said that the two parties will cooperate closely to further penetrate into China's auto financing market.

- **MBtech JV:** In addition to the existing Saab platform (which Senova series products are built on), the MBtech JV, established in February, will develop a new platform for Beijing Motor's future vehicles.

Deutsche Bank view – Buy on continuously strong FY15E growth pace

With ramping-up of popular new models launched in FY14 for various brands, as well as extra new launches in FY15E, mostly for SUVs, we are upbeat that BAIC Motor can sustain its strong earnings growth and dividends. We use a sum-of-the-parts (SoTP) approach to value BAIC, based on DCF-derived valuations for the Beijing Benz, Beijing Hyundai and Beijing Motor. We think that the implied target FY15E P/E of 9.7x is justified, considering the 27% FY14-17E EPS CAGR. Major downside risks include weak new models sales and a failure to contain costs.

Stock data

Market cap (HKDm)	66,972
Market cap (USDm)	8,633
Shares outstanding (m)	7,508.0
Major shareholders	BAIC Group (45%)
Free float (%)	18
Avg daily value traded (USDm)	0.0

Source: Deutsche Bank

Key data

FYE 12/31	2014A	2015E	2016E
Sales (CNYm)	56,370	86,870	104,191
Net Profit (CNYm)	4,510.8	7,035.2	9,263.0
DB EPS (CNY)	0.70	0.93	1.22
PER (x)	10.1	7.6	5.8
Yield (net) (%)	4.3	6.5	8.6

Source: Deutsche Bank

Deutsche Bank AG/Hong Kong

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