



Rating
Buy

Asia
China

Automobiles &
Components

Company
**Dongfeng Motor
Alert**

Reuters 0489.HK	Bloomberg 489 HK	Exchange HKG	Ticker 0489
ADR Ticker DNFGY	ISIN US2577382037		

Date
26 March 2015

Results

Price at 25 Mar 2015 (HKD)	11.80
Price target - 12mth (HKD)	14.00
52-week range (HKD)	14.74 - 10.18
HANG SENG INDEX	24,400

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FY14 results in line; maintaining Buy on attractive valuation

FY14 net profit grew 22% with 12% YoY increase in JV contribution

Dongfeng announced on 25 March its FY14 results under the equity accounting method (with some additional disclosure based on the old proportionate consolidation accounting method). On a like-for-like proportionate consolidation basis, the company recorded 21.1% YoY revenue growth on 21.3% passenger vehicle (PV) revenue growth and 19.1% CV revenue growth. Gross profit margin was stable YoY, attributable to improving product mix with newer models, e.g. Dongfeng Nissan Xtrail SUV, Dongfeng Peugeot 2008 SUV, and China IV-compliant CVs, in our view. From an operating-cost perspective, the 20bps YoY reduction in SG&A expense ratio was offset by increases R&D expense.

Dongfeng recorded 22.0% net profit growth to RMB12.8bn, which was 3% above our estimate and in line with Bloomberg consensus. Within the FY14 net profit, there was ~RMB2.1bn one-off gain due to re-valuation of the PSA stake. On HoH basis, Dongfeng recorded a sequential decline in gross profit margin. Based on proportionate consolidation basis, gross margin deteriorated to 18.1% in 2H14 vs. 21.3% in 1H14 and 20.3% in 2H13. Meanwhile, sales of the company's Japanese JV brands dropped 14.5% YoY in 2H14.

In the results announcement, management indicated that it expects China's vehicle sales to grow ~6-8% in 2015. It also thinks the company will outgrow the market with 26 new model launches (including facelift) in the next 2 years.

Deutsche Bank view – maintain Buy on attractive valuation

We are optimistic that Dongfeng can achieve stable earnings growth, and we maintain our Buy recommendation on 1) potential recovery of the Japanese JVs' sales amid new model launches, 2) loss narrowing at Fengshen brand on strong new SUV product sales, 3) enlarging earnings contribution from the PSA JV, and 4) attractive valuation.

Figure 1: Dongfeng Motor – FY14 results summary

(RMBm)	Equity accounting			Proportionately consolidated accounting		
	FY14	FY13	YoY%	FY14	FY13	YoY%
Revenue	80,954	37,263	117.3%	195,211	161,253	21.1%
Passenger vehicles	36,671	11,905	208.0%	141,677	116,820	21.3%
Commercial vehicles	42,627	24,527	73.8%	52,986	44,505	19.1%
Others	1,656	831	99.3%	548	(72)	n.a.
Gross profit	10,710	4,681	128.8%	38,321	31,900	20.1%
Gross profit margin	13.2%	12.6%		19.6%	19.8%	
Operating profit	1,428	(547)	n.a.	16,530	15,227	8.6%
Operating profit margin	1.8%	-1.5%		8.5%	9.4%	
Share of JVs/associates' profit	12,751	11,429	11.6%	2,277	n.a.	n.a.
Net profit	12,845	10,528	22.0%	12,845	10,528	22.0%
Net profit margin	n.a.	n.a.		6.6%	6.5%	

Source: Company data

Stock data

Market cap (HKDm)	101,670
Market cap (USDm)	13,110
Shares outstanding (m)	8,616.1
Major shareholders	Dongfeng Motor (67%)
Free float (%)	33
Avg daily value traded (USDm)	25.1

Source: Deutsche Bank

Key data

FYE 12/31	2013A	2014E	2015E
Sales (CNYm)	37,263	56,280	64,646
Net Profit (CNYm)	10,528.0	12,773.2	13,501.3
DB EPS (CNY)	1.22	1.48	1.57
PER (x)	7.4	6.4	6.0
Yield (net) (%)	2.0	2.5	2.8

Source: Deutsche Bank

Dongfeng Motor - sales volume breakdown

Sales volume (Units)	FY14	FY13	YoY
Nissan JV's passenger vehicles	1,005,883	986,769	1.9%
PSA JV	704,016	550,007	28.0%
Honda JV	308,215	321,409	-4.1%
Liuzhou Automobile	240,899	180,189	33.7%
Own brands' passenger vehicles	80,107	80,077	0.0%
Total passenger vehicles	2,339,120	2,118,451	10.4%
Commercial vehicles	394,388	449,204	-12.2%
Total vehicle	2,733,508	2,567,655	6.5%

Source: Company data

We will provide an update after the company's analyst briefing on 26 March.

Deutsche Bank AG/Hong Kong

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