

JPM-pp1

Asia Pacific Equity Research

26 March 2015

DongFeng Motor Co., Ltd. (489 HK)

Overweight

Price: HK\$11.80

25 Mar 2015

Price Target: HK\$18.00

PT End Date: 30 Jun 2015

FY14 results first take

Dongfeng Motor's FY14 earnings reported today were broadly in line with our expectations (1% shy of JPMe and 2% above Street consensus). Analyst briefing tomorrow should provide guidance on the company's initiatives on three key JVs - Nissan, Honda and PSA as well as its own brand business. We leave our estimates unchanged, pending further review post the analyst briefing.

- **Our investment thesis on DFM:** DFM's share price performance has exhibited a very high correlation with a yearly change of its investment return since listing in 2005. Strong model cycle and earnings surprise will be the two main drivers to its re-rating. Among three major JVs, DF-PSA should lead the most relative upside surprise in our view and we estimate DF-PSA will contribute 18% of DFM's FY15 earnings (up from 11% in FY13). PSA plans to introduce two new models under Peugeot and Citroen brand each in the next few years. For Nissan and Honda, Dongfeng Motor has or is planning to introduce a couple of major new or facelift models including new Qashqai, new Loulan SUV, Venucia SUV, new C-segment sedan under Nissan brand, Infiniti SUV, new Elysion and a new B-segment sedan under Honda brand.
- **FY14 result observations:** Net profit was up 22 % YoY on the back of: 1) Revenue doubled from Rmb37bn to Rmb80bn as a result of change in the basis of consolidation as well as solid volume growth from Dongfeng-Liuzhou PV (34% YoY). 2) On the JV side, investment income increased 12% YoY (of which, investment income in PV segment was up 22% YoY) driven by Dongfeng-Nissan, Dongfeng-Honda as well as Dongfeng-PSA (sales volume up 28% YoY in 2014). 3) One-off FX gain of financing activities amounting to Rmb860mn also helped boost the bottom line.
- **Rating, Risks:** We leave our Overweight rating unchanged. Our June-15 PT HK\$18/shr is based on an 8x forward PER. Risks: Worse-than-expected sales and margins.

Investment Thesis

DFM's share price performance has exhibited a very high correlation with yearly changes of its investment return since listing. We believe a strong model cycle and earnings surprise will be two main drivers of its re-rating. DF-PSA should lead the most relative upside and we estimate DF-PSA will contribute to 18% of DFM's FY15 earnings (up from 11% in FY13). PSA plans to introduce two new models under *Peugeot* and *Citroen* brands each in the next few years.

Valuation

We remain Overweight with a June-15 PT of HK\$18/shr on a conservative 8x forward PER as we believe the entire sector will see growth deceleration into FY15. DFM is currently trading at around a historical low of ~5-6x one-year forward P/E and ~1.1x P/BV.

Risks to Rating and Price Target

Downside risks include: (1) worse-than-expected sales of Japanese cars in China, including DFM's Nissan and Honda vehicles, (2) worse-than-expected margin improvement for its passenger and commercial vehicle businesses, and (3) worse-than-expected co-operation with Peugeot SA in China and other overseas markets in the long run.

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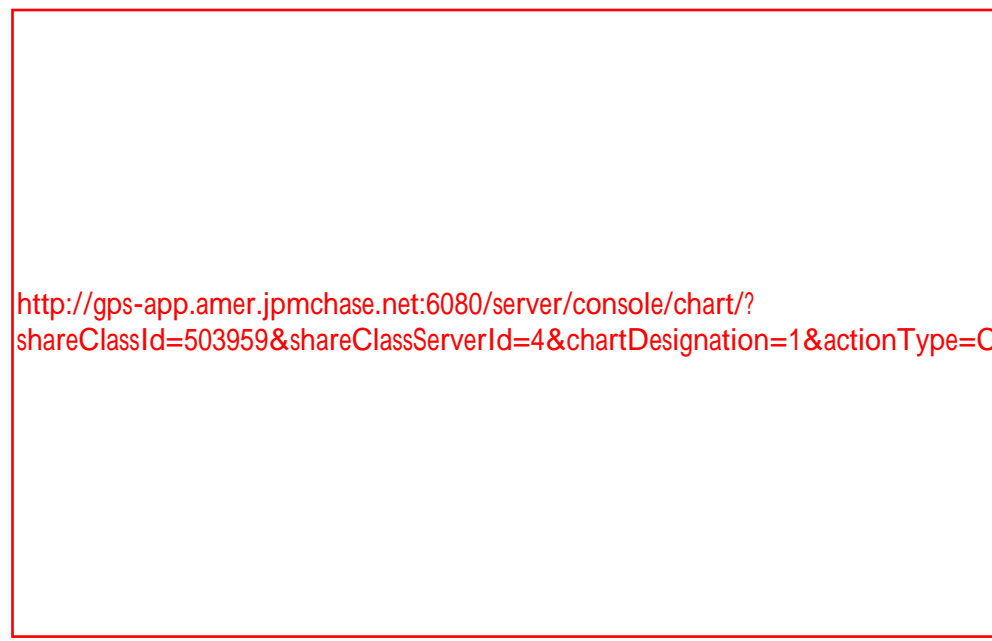
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Date	Rating	Share Price (HK\$)	Price Target (HK\$)
17-Jan-09	OW	2.64	4.70
31-Mar-09	OW	3.80	6.30
25-May-09	OW	6.78	8.50
25-Aug-09	OW	8.60	10.30
04-Nov-09	OW	9.37	13.00
09-Dec-09	OW	11.66	14.10
03-Feb-10	OW	10.64	13.00
17-Mar-10	OW	11.68	15.00
21-Apr-10	N	12.40	13.80
30-Jul-10	OW	10.82	13.50
15-Oct-10	OW	16.60	22.00
26-Nov-10	N	15.52	18.00
28-Jan-11	N	14.32	15.60
30-Apr-11	N	12.34	13.80
02-Aug-11	N	15.74	14.00
18-Oct-11	N	12.70	13.30
16-Nov-11	UW	13.42	13.30
29-Feb-12	UW	15.12	13.30
14-Aug-12	UW	11.20	10.00
07-Oct-12	UW	8.90	7.50
27-Aug-13	UW	11.26	8.50
29-May-14	OW	11.08	15.00
23-Jun-14	OW	13.42	22.00
30-Aug-14	OW	14.16	23.00
03-Nov-14	OW	11.50	18.00

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