

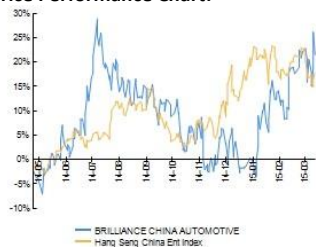
27 March 2015

Outperform
Unchanged

Market Data: Mar, 26

Closing Price (HK\$)	14.24
Price Target (HK\$)	16.70
HSCEI	11,920
HSCCI	4,515
52-week High/Low (HK\$)	16.24/10.0
Market Cap (US\$m)	9,235
Market Cap (HK\$m)	71,570
Shares Outstanding (m)	5,026
Exchange Rate (Rmb-HK\$)	1.26

Price Performance Chart:



Source: Bloomberg

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"BRILLIANCE CHINA AUTOMOTIVE
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等待新车型和升级版推出

华晨中国 (1114 HK)

Financial summary and valuation

	2013	2014	2015E	2016E	2017E
Revenue (Rmbm)	6,103	5,515	6,584	8,143	9,781
YoY (%)	3.17	(9.65)	19.39	23.67	20.12
Net income (Rmbm)	3,316	5,300	6,219	7,535	8,928
YoY (%)	46.64	60.14	17.40	21.17	18.50
EPS (Rmb)	0.67	1.08	1.26	1.53	1.81
Diluted EPS (Rmb)	0.67	1.07	1.26	1.52	1.80
ROE (%)	27.79	33.87	29.31	26.69	24.44
Debt/asset (%)	36.07	31.25	25.30	23.22	21.44
Dividend Yield (%)	0.70	1.08	1.12	1.35	1.60
PE (x)	16.83	10.51	8.95	7.39	6.24
PB (x)	4.68	3.56	2.62	1.97	1.52
EV/Ebitda (x)	(718.85)	(334.41)	(794.47)	(445.89)	(307.28)

Note: Diluted EPS is calculated as if all outstanding convertible securities, such as convertible preferred shares, convertible debentures, stock options and warrants, were exercised.

业绩超预期。华晨中国公布 2014 财年数据。全年总收入约人民币 55 亿元 (同比下滑 9.6%)，净利润约人民币 53 亿元 (同比增长 59.8%)。2014 年每股净利润为人民币 1.08 元，高于我们预测的人民币 0.92 元。由于产品销售结构有所变化，毛利率与去年相比下滑 1%至 10.2%。受益于销售费用降低 (同比下降 3.8%) 以及对经销商补贴费用的减小，净利率从 2013 年 54.3%大幅增长至 2014 年的 96.1%。

华晨宝马销量表现强劲。尽管我国乘用车销量表现疲软，但在宝马 3 系 (2014 年销量同比增长 53.7%)，5 系 (2014 年销量同比增长 12%) 以及 X1 (2014 年销量同比增长 108.7%) 的拉动下，华晨宝马在 2014 年销量表现强劲，同比增长 34.7%；合资公司贡献的收益同比增长 61%，促使华晨中国在 2014 年净利润大幅增长。由于乘用车整体增速放缓，我们预计华晨宝马在 2015 的销量增速将缓慢下滑至 15%左右。然而，由于管理层较好的成本控制，以及欧元贬值造成的采购成本降低 (年初至今欧元兑人民币已贬值近 9%)，我们预计合资公司的净利率在 2015 年将维持在 8%左右。管理层发布指引，宝马 2 系以及 X1 加长版预计将于 2016 年推出。受新模型推出以及车型升级的影响，我们预计华晨宝马的销量在 2016 年达 20%，在 2017 年达 23%。

产能扩张，国产化率提升。华晨宝马开已在位于辽宁省的铁西厂展开了新一轮的产能扩张。2014 年的资本支出约人民币 90 亿元，我们预计今年的资本支出将增长 10%，达到近人民币 100 亿元。一旦完成，铁西厂的总产能将达到 40 万左右；结合华晨宝马在位于辽宁省的另一家大东厂近 20 万的产能，总产能预计将扩大至 60 万左右。此外，铁西厂已经完成了内部发动机产能的建设，国产化率提升至 40%。我们认为国产化率的不断提高，将有效改善未来合资公司的毛利率。

自主品牌的发展。为了进一步加强其核心竞争力，华晨中国的新品牌华颂预计将于今年 3 月 27 日推出一款新车型华颂 7。华颂 7 是一款七座高端的多功能型汽车，配置了宝马 N20 发动机并拥有时尚前卫的设计。我们目前预测在 2015 年，华颂 7 的每月销量将达 1.5 千辆左右，并预测其在 2016-17 年的年增长率约 20%左右。

维持增持评级。受益于 2016 年新车型和车型升级版的推出，以及管理层较好的成本控制，我们把 2015 年每股盈利预测从人民币 0.92 元上调 37%至人民币 1.26 元，把 2016 年每股盈利预测从人民币 1.13 元上调 35%至人民币 1.53 元，并预测 2017 年每股盈利预测为人民币 1.81 元。公司当前股价对应 9.0/7.4/6.2 倍 2015/16/17 年市盈率。我们把目标价从港币 14.23 元上调至港币 16.7 元。鉴于 17%的上涨空间，我们维持增持评级。

Investment Highlights

Results beat. Brilliance China reported 2014 revenue of Rmb5.5bn (-9.6% YoY) and net profit of Rmb5.3bn (+59.8% YoY). Full-year EPS stood at Rmb1.08, higher than our forecast of Rmb0.92. Gross margin fell 1ppt to 10.2% in 2014, as a result of product mix change; while net margin improved substantially from 54.3% in 2013 to 96.1% in 2014, thanks to lower selling expenses (-3.8% YoY) and less dealership subsidy.

Strong BMW sales performance. Although China's total passenger car sales remained weak, Brilliance-BMW achieved solid sales growth of 34.7% YoY in 2014, driven by robust sales growth of its 3-Series (+53.7% YoY), 5-Series (+12.0% YoY) and X1 (+108.7% YoY). Propelled by the strong sales performance, profit contribution from its Brilliance-BMW JV surged 61% YoY, leading to a huge bottom-line growth for Brilliance China in 2014. We expect Brilliance-BMW's sales growth to moderate to 15% this year amid the broader market slowdown. However, driven by lower procurement costs due to Euro's depreciation (c.-9% against Rmb YTD) and better cost control, we expect its net margin to remain stable at c.8% in 15E. Management guided that 2-Series and a stretched X1 version will likely be released in 16E. Boosted by an upgraded model cycle, we forecast Brilliance-BMW's sales growth to accelerate to 20% in 16E and to 23% in 17E.

Capacity expansion and further localization. Brilliance-BMW started a new round of capacity expansion in its Tiexi plant (Liaoning province) with total Capex of Rmb9bn in 2014. We expect this year's Capex to increase by 10% at Rmb10bn. Once completed, total production capacity in Tiexi plant will amount to 400k units; together with another 200k in Dadong plant (Liaoning province), Brilliance-BMW will have a combined production capacity of 600k. In addition, Tiexi plant has completed an in-house engine production sub-line, which lifted localization rate to 40%. We believe this may likely bring more margin upside potential in future.

Local brand development. In an effort to further strengthen its core competitiveness, Brilliance China's new brand, Huasong, developed a new car model, Huasong7, which is expected to debut on 27 March. Huasong7 is a seven-seater premium multiple-purpose-vehicle (MPV), powered by BMW's highly regarded N20 engine with fashionable designs. We currently forecast its monthly sales to reach c.1.5k units in 15E, and forecast it to grow at c.20% annually in 16-17E.

Maintain Outperform. Given an upgraded model cycle in 16E and management's better cost control, we revise up our EPS forecasts by 37% from Rmb0.92 to Rmb1.26 in 15E (+17% YoY), by 35% from Rmb1.13 to Rmb1.53 in 16E (+21% YoY) and forecast EPS of Rmb1.81 in 17E. The company's current share price implies 9.0x 15E PE, 7.4x 16E PE and 6.2x 17E PE. We raise our target price from HK\$14.23 to HK\$16.7. With 17% upside, we maintain our Outperform rating.

APPENDIX

Fig 1: Consolidated Income Statement

Rmbm	2013	2014	2015E	2016E	2017E
Revenue	6,103	5,515	6,584	8,143	9,781
Cost of Sales	(5,417)	(4,952)	(5,823)	(7,208)	(8,663)
Gross Profit	687	562	762	935	1,117
Other Income	96	104	132	163	196
Distribution expenses	(608)	(585)	(658)	(814)	(978)
Administrative expenses	(399)	(402)	(461)	(570)	(685)
Ebitda	(79)	(170)	(71)	(127)	(185)
Ebit	(225)	(320)	(226)	(287)	(350)
Share of results of associates	193	229	233	256	282
Jointly controlled entities	3,448	5,537	6,367	7,768	9,244
Finance Costs	(92)	(103)	(92)	(126)	(158)
Profit before tax	3,325	5,343	6,282	7,612	9,018
Income tax expense	(8)	(43)	(63)	(76)	(90)
Profit for the year	3,316	5,300	6,219	7,535	8,928
Minority interests	(58)	(103)	(124)	(151)	(179)
Equity holders of the parent	3,374	5,403	6,343	7,686	9,108

Source: SWS Research

Fig 2: Consolidated Cash Flow Statement

Rmbm	2013	2014	2015E	2016E	2017E
Profit before taxation	3,325	5,343	6,282	7,612	9,018
Plus : Depr. and amortisation	146	150	155	159	165
Share of results of JCEs	(3,448)	(5,537)	(6,367)	(7,768)	(9,244)
Share of results of Associates	(193)	(229)	(233)	(256)	(282)
Finance cost	139	156	156	171	189
Change in working capital	(78)	(9)	56	38	38
Others	40	11	27	43	64
CF from operating activities	(132)	(184)	(102)	(20)	(30)
Capex	(137)	(122)	(109)	(99)	(91)
Other CF from investing activities	(140)	(174)	199	141	92
CF from investing activities	(277)	(296)	89	42	1
Net change in liabilities	409	(163)	137	150	165
Dividend and interest paid	(139)	(156)	(156)	(171)	(189)
Other CF from financing activities	140	-	1	2	3
CF from financing activities	411	(320)	(18)	(19)	(20)
Net cash flow	2	(799)	(171)	2	(50)

Source : SWS Research

Fig 3: Consolidated Balance Sheet

Rmbm	2013	2014	2015E	2016E	2017E
Current Assets	6,524	6,345	6,642	8,427	10,352
Bank balances and cash	2,117	2,526	1,725	1,305	1,102
Trade and other receivables	2,220	1,964	2,239	2,768	3,325
Inventories	769	797	873	1,081	1,299
Other current assets	1,418	1,059	2,364	3,183	4,625
Long-term investment	10,018	13,804	19,364	26,129	34,164
PP&E	1,686	1,960	1,931	1,955	1,970
Intangible and other assets	762	1,098	1,042	992	945
Total Assets	18,990	23,207	28,979	37,502	47,431
Current Liabilities	6,793	7,134	7,202	8,564	10,009
Borrowings	1,528	1,365	1,502	1,652	1,817
Trade and other payables	4,289	4,821	4,658	5,766	6,931
Other current liabilities	975	948	1,042	1,147	1,261
Long-term liabilities	56	119	131	144	158
Total Liabilities	6,849	7,253	7,333	8,708	10,167
Share Capital	396	396	396	396	396
Reserves	12,619	16,535	22,879	30,565	39,673
Minority interests	(874)	(977)	(1,629)	(2,167)	(2,805)
Total Liabilities and equity	18,990	23,207	28,979	37,502	47,431

Source: SWS Research

Fig 4: Key Financial Ratios

	2013	2014	2015E	2016E	2017E
Ratios per share (HK\$)					
Earnings per share	0.67	1.08	1.26	1.53	1.81
Operating CF per share	(0.03)	(0.04)	(0.02)	(0.00)	(0.01)
Dividend per share	0.08	0.11	0.13	0.15	0.18
Net assets per share	2.42	3.17	4.31	5.73	7.41
Key Operating Ratios (%)					
ROE	27.79	33.87	29.31	26.69	24.44
Gross profit margin	11.25	10.20	11.57	11.48	11.42
Ebitda Margin	(1.29)	(3.08)	(1.09)	(1.56)	(1.89)
EBIT Margin	(3.69)	(5.80)	(3.43)	(3.52)	(3.58)
Growth rate of Revenue (YoY)	3.17	(9.65)	19.39	23.67	20.12
Growth rate of Profit (YoY)	46.64	60.14	17.40	21.17	18.50
Debt-to-asset ratio	36.07	31.25	25.30	23.22	21.44
Turnover rate of net assets	0.50	0.35	0.30	0.28	0.26
Turnover rate of total assets	0.32	0.24	0.23	0.22	0.21
Effective tax rate (%)	0.25	0.80	1.00	1.00	1.00
Dividend yield (%)	0.70	1.08	1.12	1.35	1.60

Source: SWS Research

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