



Rating  
**Buy**

Asia  
China

Automobiles &  
Components

Company  
**Brilliance China  
Alert**

Reuters 1114.HK	Bloomberg 1114 HK	Exchange HKG	Ticker 1114
ADR Ticker BCAUY	ISIN US10949Q2049		

Date  
30 March 2015

**Company Update**

Price at 30 Mar 2015 (HKD)	14.88
Price target - 12mth (HKD)	17.20
52-week range (HKD)	16.06 - 11.58
HANG SENG INDEX	24,486

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**NDR takeaways**

We brought Brilliance's management to NDR on 30 March. The following are the key takeaways:

- FY14 beat: The strong FY14 earnings growth (at the BMW JV) was mainly attributable to 1) economy of scale on robust sales, 2) product pricing resilience, 3) stable selling expense ratio despite market worries of extra incentive to dealers, 4) controlled R&D expenses.

- FY15 sales guidance: For the BMW JV, Brilliance only guided for 10% volume growth mainly considering 1) a lack of new models until yearend 2015E and 2) the end of product life cycle for X1. The JV still see resilient demand for 5 series, while 3 series will have a facelift by yearend besides the launch of 2 series Active Tourer. In other words, risk is more likely to be on the upside.

- FY15 profitability: Brilliance admits that the BMW JV's margins were high in FY14 and it could be challenging to maintain, especially considering an aging product portfolio and new Tiexi capacity expansion. That being said, the company will strive to 1) strike a balance between volume growth and margins, and 2) maintain stable expense ratios.

- FY16E and beyond: BMW will introduce three new models in the upcoming years. In our view, this includes the 2 series Active Tourer, 1 series sedan and X3 SUV. Together with the new generation X1 and new generation 5 series sedan in FY16E and FY17E, the brand should have a strong new product cycle. In addition, the engine manufacturing plant will start production next year, thus helping to improve component localization.

- Foreign exchange: The BMW JV has about 50% component localization with half of components used being imported. Notwithstanding the EUR exposure, the JV enters into rolling FX hedging contracts for all the FX payments to mitigate long-term cost volatility. In other words, while a long-term EUR depreciation will help profitability, immediate financial impact is likely to be limited.

**Deutsche Bank view - we still see high earnings certainty; Buy**

We still believe that Brilliance is conservative on FY15E volume guidance given the strength in 5 series demand. We also expect margin to ease a little bit. That being said, we are still highly comfortable with our earnings forecast, with earnings growth re-acceleration in FY16-17E. We therefore maintain Buy.

**Stock data**

Market cap (HKDm)	74,783
Market cap (USDm)	9,644
Shares outstanding (m)	5,025.8
Major shareholders	Huachen Auto (42%)
Free float (%)	57
Avg daily value traded (USDm)	22.9

Source: Deutsche Bank

**Key data**

FYE 12/31	2014A	2015E	2016E
Sales (CNYm)	5,515	6,307	6,860
Net Profit (CNYm)	5,403.4	6,029.6	6,848.9
DB EPS (CNY)	1.07	1.19	1.35
PER (x)	9.6	10.0	8.8
Yield (net) (%)	0.8	1.2	1.4

Source: Deutsche Bank

Deutsche Bank AG/Hong Kong

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