

CAR Inc.

Pedal to the metal in the fast lane

We initiate coverage of CAR with an OW rating and PT of HK\$25 (47% potential upside) based on 0.7x PEG (6-yr EPS CAGR of 55%), implying 27x/15x/11x P/E for 2015-17E. Our OW rating is based on CAR's leadership in China's fast growing short term car rental market (22% CAGR for 2014-18E according to CAR's prospectus) and its emerging dominance in the high-end chauffeured car service market.

A clear leader in the short term car rental market: China's short term car rental market is fast growing, capital intensive with a high entry barrier, and fragmented with the top five operators accounting for 43% market share vs 95% in the US. CAR leads with a 31% share (2013), followed by eHi at 8% and no clear third operator. CAR's scale and strong brand recognition have given it both a pricing and cost advantage. Its daily revenue per car, or RevPAC has averaged 24% higher than eHi's over the past three years, but its cost per car was 28% lower (in 2014).

CAR leases vehicles to UCAR which operates in the high-end chauffeured car service market: UCAR offers the only legal chauffeured car service in China as it leases 100% of its fleet, while competitors enlist privately-owned cars, which is against current regulations in China. UCAR is differentiated from other chauffeured car service providers such as Yidao, Didi Chauffeur and Uber in its superior service offering, which we detail further in our proprietary analysis in this report, based on our personal experiences. We see UCAR potentially breaking even in 2016, and expect strong earnings synergies for CAR from its cooperation with UCAR. We forecast long-term rental to account for 45% of rental revenue in 2017, a material increase from 16% in 2014.

Strong earnings growth: We forecast 82% EPS CAGR from 2014 to 2017E, driven by (1) 52% rental revenue CAGR due to operating fleet expansion to 177k from 59k units supported by increasing leverage, improving fleet utilization and long-term rental rates; (2) declining direct operating expense as a % of rental revenue (26% in 2017E vs 35% in 2014); and (3) declining SG&A as a % rental revenue (10% in 2017E vs 15% in 2014).

Key downside risks: 1) Failure to manage liquidity and cash flows; 2) residual value risk from the disposal of used cars; and 3) market share loss from intensified competition.

0699.HK: Financial and Valuation Metrics EPS CNY

FY Dec	2013	2014	2015	2016	2017
EPS	-0.12A	0.22A	0.51E	0.91E	1.29E
Previous EPS	N/A	N/A	N/A	N/A	N/A
Consensus EPS	N/A	0.24A	0.47E	0.79E	1.09E
P/E	N/A	62.6	26.6	14.9	10.6

Source: Barclays Research.

Consensus numbers are from Thomson Reuters

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PLEASE SEE ANALYST CERTIFICATION(S) AND IMPORTANT DISCLOSURES BEGINNING ON PAGE 29.

Stock Rating **OVERWEIGHT**
from N/A

Industry View **NEUTRAL**
Unchanged

Price Target **HKD 25.00**
from N/A

Price (10-Jun-2015) HKD 17.02
Potential Upside/Downside +47%
Tickers 699 HK / 0699.HK

Market Cap (USD mn) 5201
Shares Outstanding (mn) 2369.37
Free Float (%) 38.55
52 Wk Avg Daily Volume (mn) 8.0
52 Wk Avg Daily Value (USD mn) 0.00
Dividend Yield (%) N/A
Return on Equity TTM (%) N/A
Current BVPS (CNY) 2.46

Source: Thomson Reuters

Price Performance Exchange-HKG
52 Week range HKD 22.00-9.88



[Link to Barclays Live for interactive charting](#)

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CAR Inc. (0699.HK)

Stock Rating: OVERWEIGHT

Income statement (CNYmn)	2014A	2015E	2016E	2017E	CAGR
Revenue	3,520	5,423	8,783	13,215	55.4%
EBITDA (adj)	1,629	2,856	4,792	6,576	59.2%
EBIT (adj)	797	1,820	2,942	4,013	71.4%
Pre-tax income (adj)	513	1,350	2,406	3,392	87.6%
Net income (adj)	436	1,053	1,877	2,646	82.4%
EPS (adj) (CNY)	0.22	0.51	0.91	1.29	80.7%
Diluted shares (mn)	2,057.1	2,057.1	2,057.1	2,057.1	0.0%
DPS (CNY)	0.00	0.00	0.00	0.00	N/A

Price (10-Jun-2015) HKD 17.02
Price Target HKD 25.00

Why Overweight? Our OW rating is based on CAR's clear leadership in China's fast growing short-term rental market and its emerging dominance in the high-end chauffeured car service market. We expect CAR to further strengthen its leading position given its economies of scale and the fragmented nature of the short-term rental market.

Margin and return data	Average				
EBITDA (adj) margin (%)	46.3	52.7	54.6	49.8	50.8
EBIT (adj) margin (%)	22.6	33.6	33.5	30.4	30.0
Pre-tax (adj) margin (%)	14.6	24.9	27.4	25.7	23.1
Net (adj) margin (%)	12.4	19.4	21.4	20.0	18.3
ROA (%)	4.4	7.0	9.4	10.4	7.8
ROE (%)	7.8	15.8	22.0	23.7	17.3

Upside case HKD 29.00

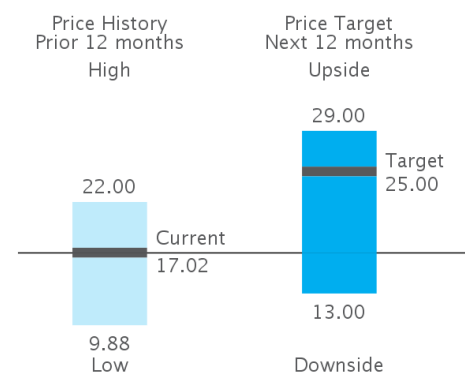
Our upside case is based on CAR achieving a fleet utilization rate similar to that of its domestic and global peers at c70%, without sacrificing average daily rental rates (ADRR).

Downside case HKD 13.00

Our downside case is based on CAR not being able to maintain its premium on ADRR due to competition, thus reached a RevPAC level similar to its peers at around RMB127.

Balance sheet and cash flow (CNYmn)	CAGR				
Tangible fixed assets	5,448	10,110	16,076	19,207	52.2%
Intangible fixed assets	164	164	164	164	0.0%
Cash and equivalents	1,352	1,516	-124	1,341	-0.3%
Total assets	9,842	15,010	19,950	25,338	37.1%
Short and long-term debt	3,611	7,407	9,907	11,907	48.8%
Pension liabilities	0	0	0	0	N/A
Other long-term liabilities	52	52	52	52	0.0%
Total liabilities	4,253	8,368	11,431	14,173	49.4%
Net debt/(funds)	2,258	5,891	10,031	10,565	67.3%
Shareholders' equity	5,590	6,642	8,519	11,164	25.9%
Change in working capital	-543	-100	-123	-119	N/A
Cash flow from operations	-1,030	-3,122	-3,538	186	N/A
Capital expenditure	-81	0	0	0	N/A
Free cash flow	-1,111	-3,122	-3,538	186	N/A

Upside/Downside scenarios



Valuation and leverage metrics	Average				
P/E (adj) (x)	62.6	26.6	14.9	10.6	28.7
EV/EBITDA (adj) (x)	18.6	11.9	7.9	5.9	11.1
EV/EBIT (adj) (x)	38.0	18.6	12.9	9.6	19.8
Equity FCF yield (%)	-2.7	2.8	-3.3	8.2	1.2
EV/sales (x)	8.6	6.3	4.3	2.9	5.5
P/BV (x)	5.0	4.2	3.3	2.5	3.8
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Total debt/capital (%)	36.7	49.3	49.7	47.0	45.7
Net debt/EBITDA (adj) (x)	1.4	2.1	2.1	1.6	1.8

Selected operating metrics	Average				
Operating fleet size	58,773	96,674	145,520	177,495	119,615
Fleet utilization (%)	62.2	64.0	64.5	65.0	63.9
RevPAC (CNY)	162	175	176	177	172
DOE as % of rental revenue	34.5	28.3	27.2	26.3	29.1
Depreciation as % of rental revenue	23.4	21.3	23.9	24.4	23.3

Source: Company data, Barclays Research

Note: FY End Dec

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CAR – A CLEAR LEADER IN CHINA’S SHORT-TERM CAR RENTAL INDUSTRY

CAR has a strong competitive advantage in the short-term rental market including significantly higher RevPAC (24% higher than eHi on average over the past three years) through its dynamic pricing and cost advantages from economies of scale and public listing. It has licence plate resources in tier 1 cities, in addition to strong brand awareness.

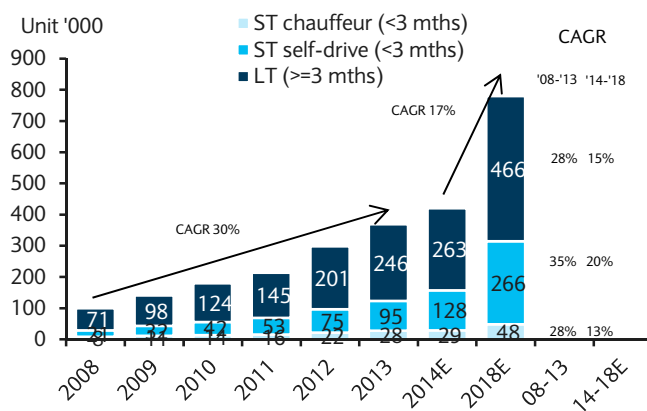
We believe the competitive landscape of China’s car rental market is more like the Brazilian market with one dominant player (Localiza with 47% market share and an EBIT margin of 25% in 2014) rather than the tri-opoly structure of the US market (Hertz, Avis and Enterprise with 26%/18%/48% market share and EBIT margins of 13%/8%/-2% in 2014 respectively). As such, we expect CAR to continue strengthening its leading position and stay dominant in its financial performance given the fragmented nature of the short-term rental market.

Short-term car rental market: strong growth, fragmented, capital intensive

Strong growth potential: According to CAR’s prospectus, China’s car rental market has grown at a rapid pace (30% CAGR) from 2008 to 2013. A consultancy expects the market to grow further at a 15% CAGR from 2014-2018E due to relatively low rental penetration (0.5% in 2014 vs 1.7% in US and 1.5% in Brazil), and continuing growth in the car ownership for China passenger vehicles, at a growth rate of 14% from 2014-2018E.

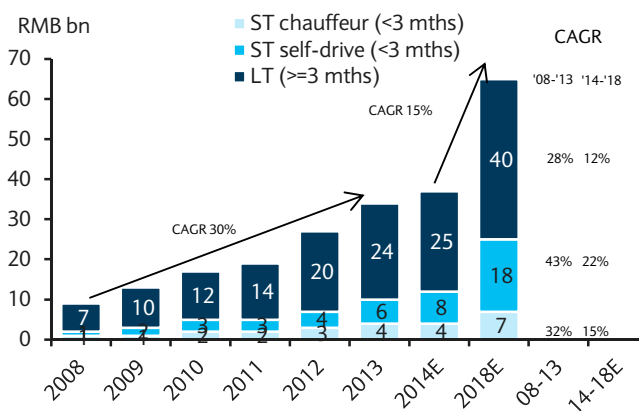
For short-term rentals (less than 90 days), the market could grow at a 22% CAGR between 2014 and 2018E, according to CAR’s prospectus. Business travel accounted for approximately 76% of the short-term rental market in 2013 with leisure travel around 24%. The company expects leisure travel to grow at a faster pace (27% CAGR from 2013 to 2018) driven by increasing tourism demand.

FIGURE 1
China car rental fleet size by segments



Source: Roland Berger, Barclays Research

FIGURE 2
China car rental market – overall revenue



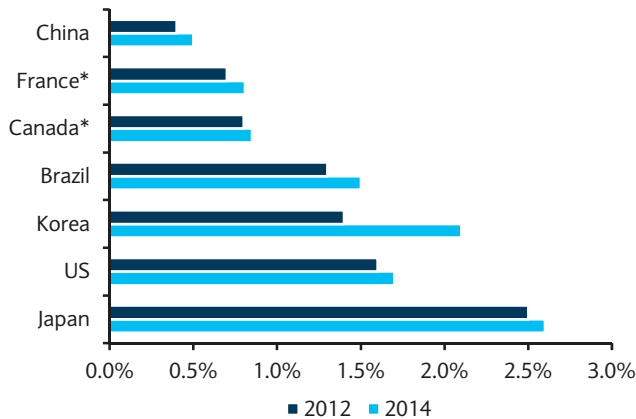
Source: Roland Berger, Barclays Research

FIGURE 3
Self-drive travel for business or leisure

Self drive travel (mn trips)	2008	2013	2018E	08-13 CAGR	13-18 CAGR
Business	128	467	970	30%	16%
% total	77%	76%	67%		
Leisure*	38	146	477	31%	27%
% total	23%	24%	33%		
Total	166	613	1447	30%	19%

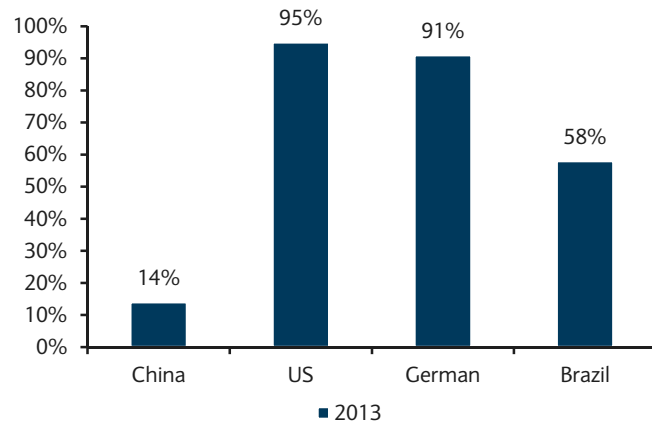
*includes tourism. Source: CAR prospectus

FIGURE 4
Car rental penetration ratio



Source: CAR prospectus, Barclays Research estimates *2014 estimated

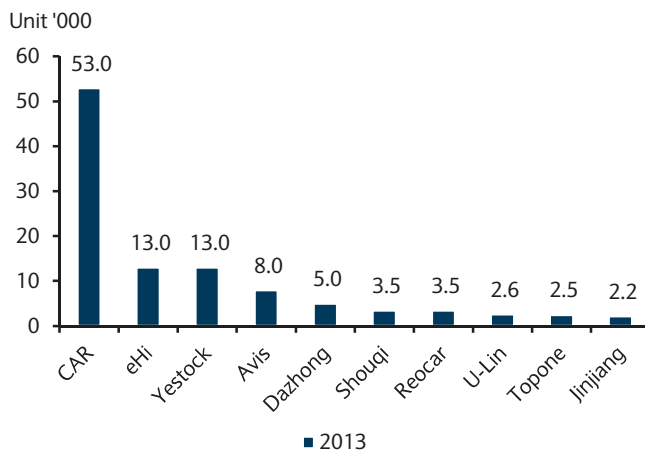
FIGURE 5
Top five car rental companies as % of total market in terms of fleet size



Source: CAR prospectus, Barclays Research

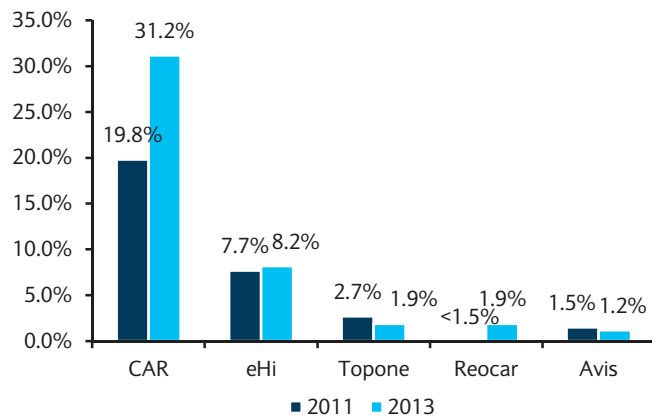
Fragmented market: China's car rental market is still at an early stage of growth and is highly fragmented. There were more than 10,000 car rental companies in China at the end of 2013 according to Roland Berger with an average fleet size of fewer than 50 cars. China's top 5 car rental companies in aggregate had a 14% share of the market in terms of fleet size in 2013 (from 8% in 2009), compared to 95% in the US, 91% in Germany, 67% in Japan and 58% in Brazil. We expect increasing market concentration as China's car rental market develops, due to high economies of scale and the capital intensive nature of the business (discussed next).

FIGURE 6
Fleet size (including affiliated and franchised) of the top ten car rental companies in China



Source: CAR prospectus, Barclays Research

FIGURE 7
Short-term self-drive car rental revenue market share comparison



Source: CAR prospectus, Barclays Research

Capital intensive with high entry barriers: A car rental business is capital-intensive, necessary to support fleet expansion. As a case in point, CAR was established in 2007 with several rounds of capital injections including its IPO, but is still free cash flow negative which we expect to continue at least until 2017. The car rental business also has high entry barriers:

- Economies of scale help the existing and larger companies generate higher operating margins which gives them a cost advantage.
- Network coverage requires time to establish, in addition to being capital intensive.
- Vehicle purchase restrictions in tier 1 and some tier 2 cities create significant barriers on fleet size expansion especially for new entrants.
- Brand recognition by consumers prevents small and newer entrants from competing at the same level as the market leaders.

CAR – Market leader with competitive strengths through scale and pricing

CAR held an absolute leading position in the short-term rental market (defined as a rental period of 90 days or less) in terms of fleet size, short-term rental revenue, network coverage and brand awareness, exceeding eHi, the second in market share, by 2-4 times (Figure 8).

FIGURE 8
Comparison between CAR and eHi

As end 2014	CAR	eHi
Fleet size (units)	63,522	19,746
Short-term rental revenue (RMB mn)	2,296	479*
Network coverage (cities)	246	99
Brand awareness (average daily hits)**	13,106	4,745

*assuming 80% of eHi's rental revenue is short-term rental revenue **according to Baidu index 2014

Source: Company data, Barclay Research estimates

Market share for short-term rentals: CAR has a dominant leading position in China's short-term self-drive market in terms of revenue. CAR held about 19.8% and 31.2% of this market in 2011 and 2013 respectively (Figure 7), 3 times and 4 times the 7.7% and 8.2% market share achieved by eHi in 2011 and 2013.

Rental fleet: CAR's vehicle fleet size was 64k units as of YE2014, 3 times eHi's, the 2nd largest competitor's 20k units. Furthermore, CAR's fleet size in 2013 was equal to the total fleet size for the remaining top ten car rental companies in China according to the CAR prospectus (Figure 6).

Network coverage: CAR had service locations (including franchised) in 246 cities as of December 2014, far ahead of eHi's 99 cities coverage. Moreover, CAR's effective coverage (with more than 3 physical service locations) was 60 cities versus eHi's 23 cities according to Roland Berger as of 2013.

In addition to directly operated service locations, CAR's network is supplemented by 219 service locations in 176 smaller cities operated by franchisees. According to the company, those franchise service locations contribute little revenue to CAR while their main purpose is to expand geographical coverage and improve brand recognition in smaller cities.

Brand recognition: According to Baidu index, a data sharing and search platform, CAR's brand awareness in 2013 was double its next competitor and second largest operator eHi with almost 6 times the brand recognition. In 2014, CAR also received about 3 times the search volumes of its next competitor eHi on Baidu and Google. (Figure 11)

FIGURE 9

Overview of market performance for CAR and competitors

As of 2013	CAR	eHi	Yestock	Avis Dazhong	Shouqi	Reocar	Topone	U-lin	Jinjiang	Chesudi	
Fleet size (Company-owned cars)	53,000	13,000	13,000	8,000	5,000	3,500	3,500	2,500	2,600	2,200	900
Market share of fleet *	6.6%	2.0%	1.5%	2.3%	1.6%	1.1%	0.3%	0.6%	0.7%	0.9%	0.2%
Market share of ST rental revenue	31.2%	8.1%	0.0%	1.2%	0.1%	0.8%	1.9%	1.9%	0.8%	0.1%	0.9%
Market share of LT rental revenue	2.1%	0.6%	2.1%	2.5%	1.8%	1.3%	0.0%	0.1%	0.8%	1.0%	0.0%
City coverage (inc. franchised)	215	81	33	33	11	17	6	67	1	1	4
Effective city coverage**	60	23	-	15	1	2	5	17	1	-	1
Company-owned service locations	720	244	-	45	15	35	117	149	12	-	28

*Note: Market share of the fleet includes fleet, affiliated and franchised

** Cities with >=3 physical service locations (including franchised)

Source: CAR prospectus, Barclays Research

FIGURE 10

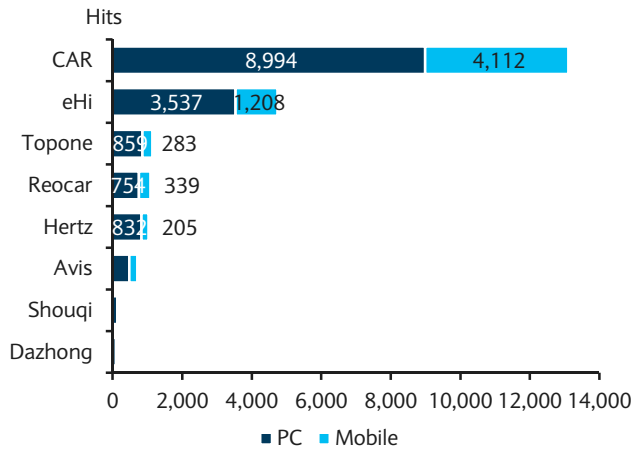
Number of service locations in major cities as of Dec 2013

	North		East	Central		South			Midwest	
	Beijing	Shenyang	Shanghai	Changsha	Wuhan	Guangzhou	Shenzhen	Sanya	Chengdu	Chongqing
CAR	85	43	67	27	25	48	43	4	34	24
eHi	20	2	51	4	5	21	14	1	3	3
Reocar	1	0	0	18	22	32	35	0	0	9
Avis	3	1	6	0	1	2	1	2	1	1
Topone	4	0	4	2	2	4	3	1	3	1
Shouqi	16	0	1	0	1	1	1	1	1	0

Source: CAR prospectus, Barclays Research

FIGURE 11

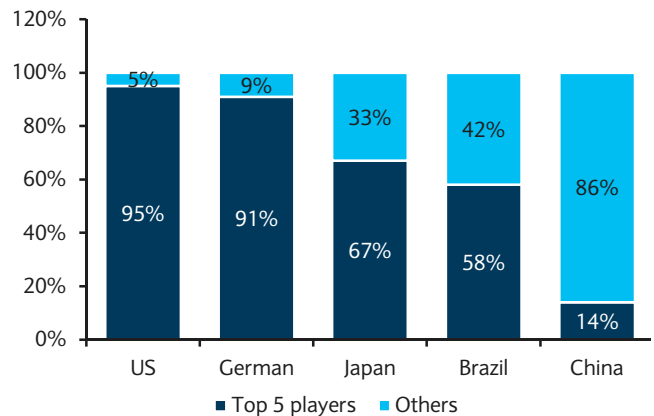
Baidu customer attention ranking (average daily hits)



Source: Baidu index 2014, CAR prospectus, Barclays Research

FIGURE 12

Car rental market concentration in China vs mature markets



Source: CAR prospectus, Barclays Research

CAR's competitive advantage gives it a higher unit IRR

CAR's key competitive advantages include significantly higher RevPAC (on average 24% higher than eHi's in 2012-14) through dynamic pricing, a cost advantage from economies of scale and funding advantages from its public listing. It has also secured vehicle plate resources, which is important as some cities are controlling the car parc (the total number of vehicles) through limiting car licenses. This makes reserving license plates as essential for fleet expansion in tier 1 cities as strong brand awareness.

Achieving a higher RevPAC through dynamic pricing

CAR's market leadership gives it an information edge. It has more proprietary data, which is key to its dynamic pricing model.

CAR implements dynamic pricing where rental rates are based on a number of factors including supply/demand of rental vehicles, competitor rates and location which maximizes its own profitability, in addition to creating competitive pressure on peers.

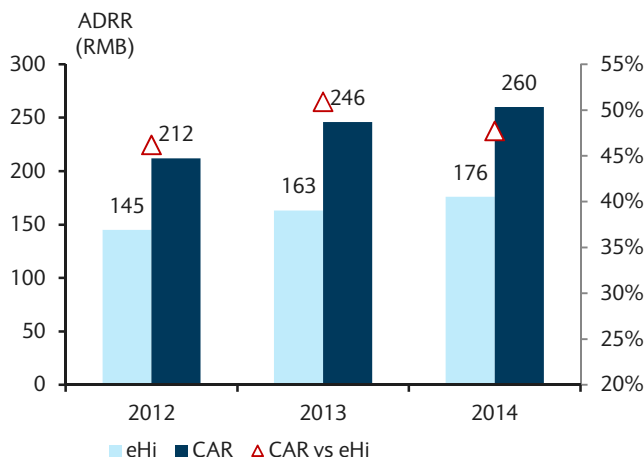
Dynamic pricing has yielded very positive results. As shown in Figure 13 and Figure 14, CAR's short-term revenue per car per day (RevPAC) has averaged 24% higher than eHi's (the second largest market share leader in short-term rentals) over the past three years, as CAR could charge average daily rental rates (ADRR) that were 48% higher, although with a modest reduction in fleet utilization (12ppt lower on average than eHi in the past three years).

Of note, using CAR's RevPAC of RMB175 in 2015E generates a 24% unlevered IRR for its short-term rental investments (Figure 17) according to our estimates, which falls to 13% if RevPAC declines to eHi's level of RMB127 (keeping everything else equal).

For our IRR calculations, we assume an initial investment per car of RMB96k, a holding period of 2.5 years and a residual value of 60% of procurement cost when disposed.

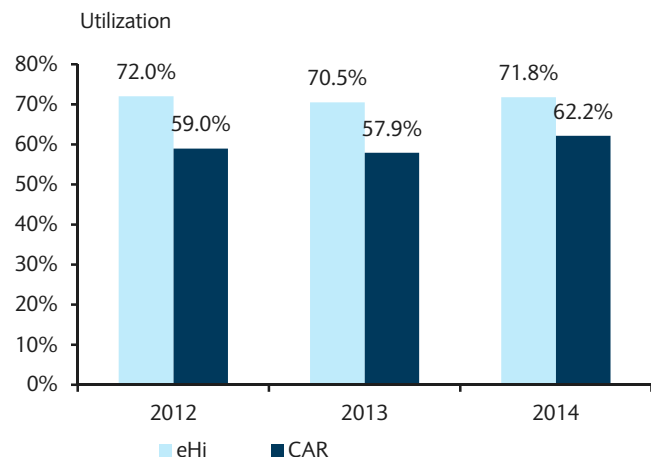
According to management, CAR intends to maintain fleet utilization at 63-65% over the next few years, slightly higher than its 2014 utilization rate of 62.2%. This continues to be lower than 70-75% utilization rates for its domestic and global peers, given its dynamic pricing strategy.

FIGURE 13
ADRR: CAR vs eHi



Source: Company data, Barclays Research

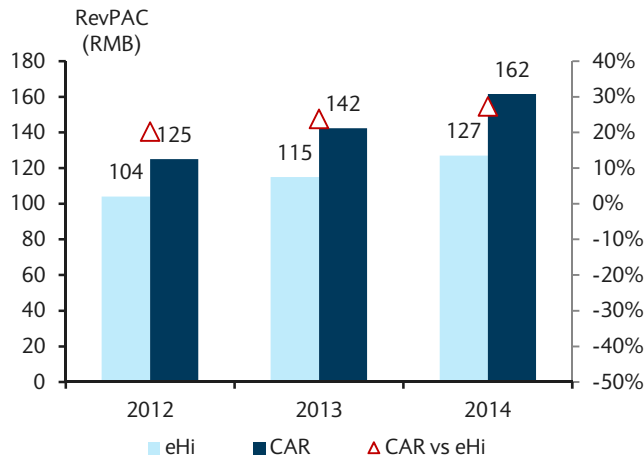
FIGURE 14
Short-term fleet utilization: CAR vs eHi



Source: Company data, Barclays Research

FIGURE 15

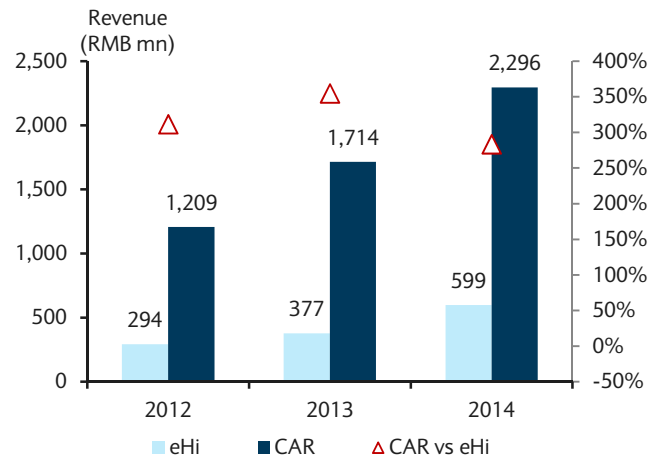
RevPAC: CAR vs eHi



Source: Company data, Barclays Research

FIGURE 16

Short-term rental revenue: CAR vs eHi



Source: Company data, Barclays Research

FIGURE 17

CAR – IRR calculation per car on RevPAC of RMB175

RMB '000		Q1	Q2	Q3	Q4	Q5	Q6	Q7	Q8	Q9	Q10
Initial investment	96										
Holding period	2.5										
Residual value % procurement cost	60%										57.6
RevPAC		175	175	175	175	175	175	175	175	175	175
Revenue		16	16	16	16	16	16	16	16	16	16
Depreciation		3.84	3.84	3.84	3.84	3.84	3.84	3.84	3.84	3.84	3.84
% rev		24%	24%	24%	24%	24%	24%	24%	24%	24%	24%
DOE		5	5	5	5	5	5	5	5	5	5
% rev		28%	28%	28%	28%	28%	28%	28%	28%	28%	28%
SG&A		2	2	2	2	2	2	2	2	2	2
% rev		10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
EBIT		6	6	6	6	6	6	6	6	6	6
Tax		1	1	1	1	1	1	1	1	1	1
<i>tax rate</i>		25%	25%	25%	25%	25%	25%	25%	25%	25%	25%
Net income		4	4	4	4	4	4	4	4	4	4
Cash flow	-96	8	8	8	8	8	8	8	8	8	66
IRR	24.2%										

Source: Barclays Research estimates

FIGURE 18

CAR – Unit IRR calculation using eHi's RevPAC of RMB127

RMB '000	Q1	Q2	Q3	Q4	Q5	Q6	Q7	Q8	Q9	Q10
Initial investment	96									
Holding period	2.5									
Residual value % procurement cost	60%									
RevPAC	127	127	127	127	127	127	127	127	127	127
Revenue	12	12	12	12	12	12	12	12	12	12
Depreciation	3.84	3.84	3.84	3.84	3.84	3.84	3.84	3.84	3.84	3.84
% rev	33%	33%	33%	33%	33%	33%	33%	33%	33%	33%
DOE	3	3	3	3	3	3	3	3	3	3
% rev	28%	28%	28%	28%	28%	28%	28%	28%	28%	28%
SG&A	1	1	1	1	1	1	1	1	1	1
% rev	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
EBIT	3	3	3	3	3	3	3	3	3	3
Tax	1	1	1	1	1	1	1	1	1	1
<i>tax rate</i>	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%
Net income	2	2	2	2	2	2	2	2	2	2
Cash flow	-96	6	6	6	6	6	6	6	6	64
IRR	13.0%									

Source: Barclays Research estimates

CAR's cost advantages from economies of scale and relative funding advantages from its public listing

- **Procurement costs:** according to management, CAR's vehicle procurement cost is approximately RMB160k/unit for long-term rentals and RMB96k/unit for short-term rentals, which is a 20-25% discount versus the MSRP (manufacturer suggested retail price). This is likely the best discount rate that can be offered by OEMs, if we consider operating profit margins of ~10-12% for OEMs, 0% for dealers on new car sales and a retail discount of ~10% to MSRP, on average.
- **Financing costs:** in 2014, CAR's average interest rate was 8.3%, or 10% of its rental revenue. After its IPO in September 2014, CAR was able to issue a US\$500mn 5-year senior note at 6.125% (BB+ rated). We expect lower interest debt to gradually replace those at a higher rate, which gives CAR a relative funding advantage over unlisted competitors.
- **We estimate 76% of operating cost (excluding depreciation) is fixed as shown in Figure 19, giving rise to high operating leverage.**

FIGURE 19

CAR's cost breakdown

RMB mn	2014	% total	Fixed
Payroll	513	35.9%	x
Share based compensation	80	5.6%	
Store expense	124	8.7%	x
Insurance	152	10.6%	x
repair and maintenance	98	6.9%	partial
Fuel	78	5.5%	
Advertising	53	3.7%	x
Rental and office expense	64	4.5%	x
Others	269	18.8%	partial
Total	1,432	100.0%	76%

Source: Company data, Barclays Research estimates

FIGURE 20

Cost comparison CAR vs eHi 2014

RMB per car per day	CAR (2014A)	eHi (2014A)	CAR vs eHi
Depreciation	38	54	-30%
DOE	55	86	-35%
SG&A	25	33	-24%
Interest expense	17	15	16%
Total	135	187	-28%

Source: Company data, Barclays Research estimates

CAR's vehicle licenses in tier 1 cities, a scarce resource

CAR has secured 13k and 8k vehicle licenses respectively in Beijing and Guangzhou (both cities have passenger vehicle licence restrictions) as of 30 September 2014, compared with their 5k/2-3k actual operating rental cars in each city respectively. This offers room for future fleet expansion in these cities.

CAR's market dominance equates to a leading financial performance

We believe the competitive landscape for China's car rental market is more similar to Brazil's (which has one dominant player, Localiza, with a 47% market share), rather than the triopoly structure of the US rental market (Hertz, Avis and Enterprise with 26%/18%/48% respectively) in 2013. As such, we believe CAR could capture a high proportion of rental market profit. Our view is supported by CAR's financial results: its EBIT margin was 23% in 2014, similar to Localiza's 25%, and far exceeding the 13%, 8% and -2% for Hertz, Avis and eHi respectively.

FIGURE 21

Cost comparison between CAR and peers

% of rental revenue	China					Global			
	CAR 2011	CAR 2012	CAR 2013	CAR 2014	eHi*	Hertz**	Avis	Localiza	
Vehicle depreciation	33%	34%	27%	23%	33%	21%	33%	11%	
Direct operating expenses	35%	34%	34%	35%	52%	56%	50%***	44%***	
SG&A costs	32%	20%	18%	15%	20%	8%	13%***	12%***	
Finance costs	18%	17%	13%	11%	9%	4%	5%	15%	
EBIT margin	-1%	9%	4%	23%	-2%	13%	8%	25%	

*including car service revenue, direct operating expenses exclude depreciation of vehicles **based on FY13 actual ***based on total revenue (including rental and other revenue)

Source: CAR presentation, Barclays Research estimates,

FIGURE 22

Financial comparison among Global car rental companies

FY2014	Revenue		Revenue mix		Cost structure				Earnings			
	Rental	Others	Rental	Others	Depr as of rental	DOE as of rental	SG&A as of rental	Interest as of rental	Gross profit	Operating profit	EBITDA	Net profit
CAR (US\$ mn)	2,866	654	81%	19%	23%	35%	15%	11%	1,239	823	1,522	436
EHIC (RMB mn)	599	252	70%	30%	33%*	52%*	20%*	9%*	132	-18	270	-93
Hertz (US\$ mn) (FY2013)	10,245	527	95%	5%	25%	56%	10%	7%	2,494	1,368	3,893	346
Avis (US\$ mn)	6,026	2,459	71%	29%	33%	50%**	13%**	5%	2,238	657	2,833	245
Localiza (BRL mn)	1,874	2,018	48%	52%	11%	44%**	12%**	15%	1,182	727	970	411

Source: Company data, Barclays Research, * including service revenue for eHi, **DOE and SG&A as % of total revenue for Avis and Localiza

FIGURE 23

Leverage and profitability comparison among Global companies

FY2014	Average debt	Implied interest rate	Net debt/ assets	Margins				Return	
				Gross margin	EBITDA margin	EBIT margin	Net margin	ROE	ROIC
CAR (US\$ mn)	3,711	8%	23%	35%	43%	23%	12%	8%	6%
EHIC (RMB mn)	925	8%	9%	16%	32%	-2%	-11%	-4%	-3%
Hertz (US\$ mn) (FY2013)	15,879	5%	65%	23%	36%	13%	3%	12%	2%
Avis (US\$ mn)	11,134	5%	64%	26%	33%	8%	3%	37%	2%
Localiza (BRL mn)	2528	11%	23%	30%	25%	19%	11%	25%	14%

Source: Company data, Barclays Research

FIGURE 24

Operating data comparison among Global companies

FY2014	Fleet size (US\$ mn)	Mkt cap (US\$ mn)	EV (US\$ mn)	Mkt cap/car (US\$)	EV/car (US\$)	No. of cities covered	No. of service locations	Growth (2012-14 CAGR) (2011-13 for Hertz)				
								Rental revenue	Gross profit	EBITDA	EBIT	Net profit
CAR (US\$ mn)	63,522	5,382	5,746	84,727	90,454	246	942	36%	59%	48%	144%	n.m.
EHIC (RMB mn)	19,746	606	658	30,677	33,348	99	1,180	43%	174%	106%	-59%	n.m.
Hertz (US\$ mn) (FY2013)	821,000	9,468	25,354	11,532	30,882	227*	11,555	22%	17%	15%	16%	40%
Avis (US\$ mn)	535,000	5,622	16,415	10,509	30,683	175*	9,529	7%	4%	12%	1%	-8%
Localiza (BRL mn)	125,224	2,393	2,829	19,110	22,589	386	540	7%	19%	5%	25%	31%

Source: Company data, Barclays Research, *No. of countries covered

FIGURE 25

Car rental metrics vs AVIS for FY14

	CAR*	AVIS
RevPAC (RMB)	162	397
RevPAC (USD)	26	64
Fleet cost per vehicle per day (RMB)**	72	207
Fleet cost per vehicle per day (USD)**	12	33
Fleet utilization***	62.2%	70.7%
Average fleet size	37,755	513,343

Source: Company data. Barclays Research *CAR's data based on short-term rental except fleet cost per vehicle per day

Cost includes depreciation and DOE of rental business, *Derived from rental days for AVIS,

HIGH-END CHAUFFERED CARS: HIGH POTENTIAL WITH CONTROLLABLE RISK

In January 2015, CAR signed a co-branding agreement with UCAR Inc, to provide it with chauffeured car services in selected cities in China. Under this agreement, CAR will provide cars to UCAR, both long and short term, at terms equal to prevailing market rates, and has the right of first refusal in UCAR's future equity financing.

UCAR stands out from other chauffeured car service providers in two ways. (1) UCAR leases 100% of its vehicles rather than signing up privately owned vehicles for services. As the latter is prohibited by Chinese regulation, UCAR is the only legal chauffeured car service company in China. (2) UCAR offers a differentiated high-end service (more expensive black cars with MSRP over RMB200k, chauffeur-driven, free wifi/charger) which is targeted at business users.

We expect solid growth potential from CAR's cooperation with UCAR through (1) improving short-term rental utilization on weekdays, and (2) improving the growth profile of CAR's long-term rentals (accounting for 45% of rental revenue in 2017 from 16% in 2014), and its profitability (net margin growth from low single digit to above 10% according to management). Also importantly, UCAR is on its way to breaking even at 20 rides per car daily according to management and our channel checks.

UCAR is the only completely legal chauffeured car service provider in China

UCAR is not the first company to enter the chauffeured car service industry in China. Others include Yidao, Didi/Kuaidi (which merged on February 24, 2015), and Uber, which provides car hailing apps connecting private car owners (and sometimes a chauffeured and leased vehicle fleet) to those in need of transport.

We believe the fast growth and popularity of these chauffeured car services is due to inadequate service levels provided by taxis in many cities. For example 1) it is often difficult to locate a taxi, especially during rush hour, or when there is poor weather (ie when a taxi is needed the most); and 2) a poor riding experience: as some taxis may be untidy or even unclean.

UCAR is the only company in China's chauffeured car service industry that is purely B2C and not P2P, meaning it owns/leases all the cars it operates and does not tap into privately owned vehicles for services. Yidao, Kuaidi No.1 and Didi Chauffeured cars have their own vehicle fleet but also accept registered private cars doing business on their platform or registered under leasing companies, while Uber is a purely P2P service connecting private car drivers and passengers.

Owning/leasing 100% of the vehicle fleet is important since this is the only structure that is recognized by the Chinese government and does not face regulatory hurdles on legitimacy. The Ministry of Transportation issued a policy on 8 January 2015 prohibiting the use of private vehicles in chauffeured car services and allowing only compliant rental vehicles, probably because of strong opposition to chauffeured car services by taxi drivers in our view. On the other hand, UCAR's operation is more capital intensive versus those that utilize private vehicles for services, which could limit growth if the availability of capital becomes an issue.

Despite this, the government has yet to take a hard line attitude towards private cars, especially in cities that are short of taxis. That said, we have started to see increasing enforcement of this regulation. According to Sina.com, in January 2015, Chengdu's Police Office and Ministry of Transportation announced it would censure illegal auto operators and chauffeurs in Chengdu, with fines ranging from RMB10k to 30k. In the city of

Guangzhou, the Ministry of Industry and Commerce, Public Security and the Ministry of Transportation, raided Uber's office on 1 May 2015, confiscated their drivers' iPhones and fined each driver RMB30k, according to Sina.com. Also, on 21 May 2015, 96 law-enforcement officers from the Ministry of Transportation in Beijing joined "Operation Falcon" to track down illegal chauffeurs, issuing fines of up to RMB20k.

Our proprietary checks – UCAR's differentiated, high-end car service

UCAR is well positioned in the high-end chauffeured car service market, in our opinion. During our on-the-ground checks of main chauffeured car service providers in Beijing including Yidao, Uber and Didi Chauffeur, we found that UCAR was the only chauffeured car service company with smartly-attired drivers, and provided free water, wifi and mobile chargers in its vehicles. We show detailed comparisons of the above mentioned services in Figure 40 in Appendix III

In terms of fares, UCAR's is similar to that of Yidao, Didi / Kuaidi Chauffeur services but their high-end services are more expensive than both taxis and Uber (given its asset light model using privately owned vehicles) (Figure 26).

FIGURE 26
Price comparison (based on our experience in Beijing)

	UCAR	Yidao	Didi		Kuaidi		Uber	Taxi
Service	Basic level	Basic level	Chauffeured car	Kuaiche*	No.1 Chauffeured car	No.1 Kuaiche*		
Starting price	RMB16	RMB10	RMB15	RMB0	RMB20	RMB0	RMB10	RMB13
Fare per km	RMB2.8	RMB2.8	RMB2.9	RMB1.5	RMB3.9	RMB2.17	RMB1.5	RMB2.3
Additional fare per min	RMB0.5	RMB0.6		RMB0.25	RMB0.5	RMB0.3	RMB0.25	
Waiting or low speed fare	0	0	RMB3-5/5 min	0				RMB2.3-4.6/5 min
Night (23:00-5:00)		RMB0.5/km	RMB1/km	0	RMB0.8/min			RMB0.5/km
Long distance	RMB1.5 (>15km)	RMB1.4 (>20km)	RMB1.5 (>15km)	0	RMB1.95 (>20km)			RMB1.15 (>15km)
Others			Cancellation RMB10	Min RMB10	Min RMB15	Min RMB10		
Promotions	RMB100 gifted if RMB100 recharged. RMB50 rebate for first time users	¥70 free first time user	Coupon	Free on Mondays	Coupon		RMB30 free upon new business	
Experience (3km, Beijing, discounts excluded)	RMB31	RMB27	RMB28-31	RMB10	RMB35-39	N.A.	RMB10	RMB15-20
Experience (3km, Beijing, discount included)	RMB0-15	N.A.	RMB10-31	RMB10	RMB20-25	N.A.	RMB10	RMB15-20

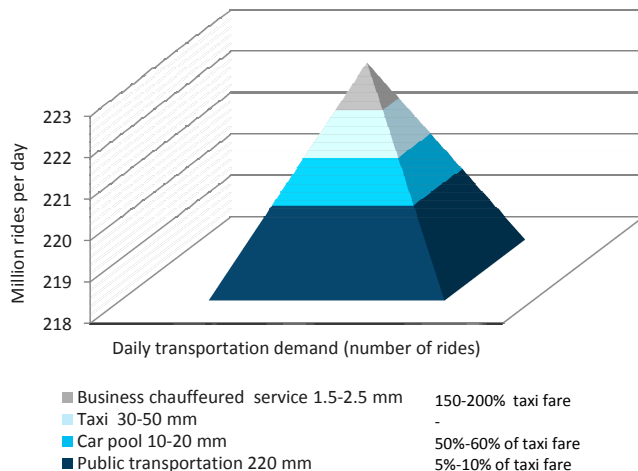
Source: Barclays Research

UCAR: a growth option for CAR with favourable risk-reward

UCAR, as a third party car service provider, rented out 9,031 vehicles under long term leases from CAR as of March 31, 2015. CAR expects this number to increase to 30-40k by the end of 2015 as UCAR grows its services.

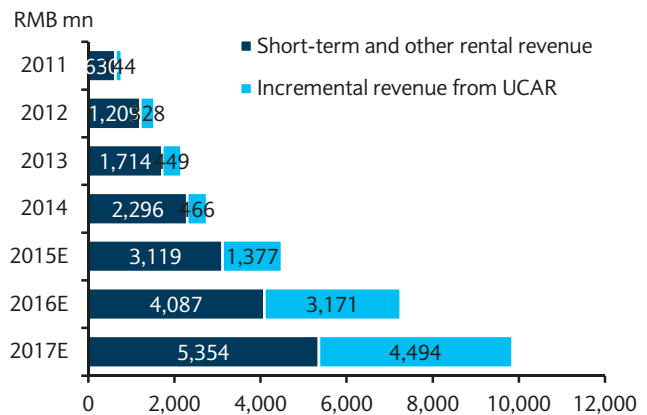
According to iheima.com, the market size for business-oriented chauffeured car services in China is 1.5-2.5mn rides per day, which equates to 75-125k cars (we assume 20 rides per day per car), providing ample room for UCAR to grow in our view.

FIGURE 27
Chauffeured car services market size estimate for China



Source: iheima.com, Barclays Research

FIGURE 28
UCAR incremental revenue to CAR



Source: Company data, Barclays Research

Despite the existence of many “chauffeured car service companies” such as Yidao, Didi Chauffeur service and Uber, we believe UCAR claims a niche position within the chauffeured car service industry, targeting high-end business users. Its strategy of deploying higher class vehicles and professional drivers so far seems quite successful with growing brand awareness; and they are about to break even according to management. The financial impact of UCAR on CAR is two-fold in our opinion:

- **Improving long-term rental margins:** CAR’s management indicates that the long term car leases provided to UCAR allows the net margin for its long-term fleet to increase from a low single digit to more than 10%.
- **Improving short-term fleet utilization** by sharing CAR’s short term rental fleet with UCAR’s during weekdays. We observe CAR’s short-term fleet utilization improved to 63.7% in 1Q15, from 62.2% on average in 2014.

In addition, we believe CAR’s relationship with UCAR and its option to acquire a yet undetermined equity stake in UCAR (according to a company announcement on 25 Jan 2015) also gives CAR the option of participating in the chauffeured service market with limited risk, as UCAR’s business model risk is being tested out without CAR investing much initial capital. We also see some mitigating factors in this partnership with UCAR:

- UCAR is starting to see solid results. According to management and our channel checks, the number of rides per day by some UCAR drivers is now in the high teens, which means UCAR is on its way to break-even (we calculate the breakeven point at 20 rides per day as shown in Figure 29); and

- Even if UCAR does run into financial difficulties, CAR would still be able to lease its long-term fleet to other chauffeured car providers as both Uber and Didi are offering strong promotions to enlist private cars/drivers (Uber is offering RMB7,000 per driver if the driver delivers 80 or more rides per week).

FIGURE 29

Cost / Benefit analysis of UCAR (per vehicle per day)

Cost per day		Revenue	
Car rental fee paid to CAR	RMB200	ASP per trip	RMB50
Payment to driver	RMB200	# of trips per day	20
Other expenses	RMB200	Revenue	RMB1000
		Rebate *	RMB350
Total expense per day	RMB600	Net revenue	RMB650

* UCAR offers RMB100 rebate for every RMB100 spent, but management commented only about 35% of its customers have taken-up the rebate

Source: Company data, Barclays Research estimates

FINANCIAL FORECASTS AND VALUATION

We initiate coverage of CAR with an OW rating and PT of HK\$25 based on 0.7x PEG, implying 27x/15x/11x P/E for 2015-17E. We believe CAR is a clear leader in China's short-term car rental industry and is establishing a strong brand presence in the high-end chauffeured car service industry through its cooperation with UCAR.

We forecast 82% earnings CAGR from 2014 to 2017E, driven by (1) 52% top-line CAGR from 2014 to 2017 as it expands its operating fleet to 177k units from 59k units (45% CAGR), supported by increasing leverage to 47% (debt / total assets) in 2017 from 37% in 2014; while improving short-term fleet utilization and long-term rental rates; (2) operating margin expansion to 30.4% in 2017 from 22.6% in 2014 due to higher RevPAC forecast for the rental business, in addition to lower administrative expenses to 5% of revenue in 2017 from 10% in 2014.

FIGURE 30
CAR key stats and assumptions

RMB mn	2011	2012	2013	2014	2015E	2016E	2017E	2018E	2019E	2020E	2011-14 CAGR	2014-17 CAGR
Short-term fleet size (units)	21,920	31,453	33,986	43,836	56,987	74,083	96,308	119,151	148,217	183,339	26.0%	26.9%
Long-term fleet size (units)	3,621	5,201	6,241	9,368	34,368	66,368	76,368	86,368	96,368	106,368	37.3%	49.9%
YE Operating fleet size (units)	25,845	38,502	42,496	58,773	96,674	145,520	177,495	210,088	248,904	293,776	31.5%	30.8%
y/y growth		49%	10%	38%	64%	51%	22%	18%	18%	18%		
fleet utilization	56.7%	59.0%	57.9%	62.2%	64.0%	64.5%	65.0%	65.5%	65.5%	65.5%		
Chg %		2.3%	-1.1%	4.3%	1.8%	0.5%	0.5%	0.5%	0.0%	0.0%		
RevPAC (RMB)	112	125	142	162	175	176	177	179	179	179	13.1%	1.7%
y/y growth		12%	14%	14%	8%	1%	1%	1%	0%	0%		
Rental revenue	776	1,558	2,208	2,866	4,667	7,473	10,090	12,216	14,523	17,226	54.6%	34.8%
y/y growth		101%	42%	30%	63%	60%	35%	21%	19%	19%		
DOE	268	532	862	989	1,321	2,033	2,654	3,188	3,762	4,427	54.5%	28.4%
% rental revenue	35%	34%	39%	35%	28%	27%	26%	26%	26%	26%		
Depreciation	258	536	690	670	995	1,785	2,464	2,737	2,794	2,911	37.5%	27.7%
% rental revenue	33%	34%	31%	23%	21%	24%	24%	22%	19%	17%		
SG&A	256	347	531	443	530	713	959	1,187	1,370	1,577	20.1%	23.6%
% rental revenue	33%	22%	24%	15%	11%	10%	10%	10%	9%	9%		
EBIT	-12	146	98	797	1,820	2,942	4,013	5,104	6,598	8,310	N.A.	47.8%
EBIT margin	-1%	9%	4%	23%	34%	33%	30%	29%	32%	35%		
Interest	141	270	335	309	511	602	720	720	720	720	30.1%	15.1%
% rental revenue	18%	17%	15%	11%	11%	8%	7%	6%	5%	4%		
Tax	1	0	7	77	297	529	746	993	1,327	1,709	394.6%	67.6%
Tax rate	0%	0%	-3%	15%	22%	22%	22%	22%	22%	22%		
Net profit	-151	-132	-223	436	1,053	1,877	2,646	3,521	4,703	6,058	N.A.	55.0%
Net margin	-18%	-8%	-8%	12%	19%	21%	20%	20%	23%	26%		

Source: Company data, Barclays Research estimates

FIGURE 31

CAR key performance indicators

	2011	2012	2013	2014	2015E	2016E	2017E	2018E	2019E	2020E
ASP for new car purchase (RMB '000)		148	148	96	124	127	114	113	111	108
ASP for disposal (RMB '000)	58	56	50	64	61	64	79	88	84	79
Debt/asset ratio	62%	59%	62%	37%	49%	50%	47%	40%	34%	29%
Capex for new car purchase (RMB mn)	-1,775	-1,764	-1,889	-2,729	-6,274	-8,837	-8,141	-10,511	-12,144	-13,814
Cash flow from second hand car sales (RMB mn)	43	51	495	654	757	1,311	3,125	5,298	5,925	6,469
Rental gross margin	32%	31%	30%	42%	50%	49%	49%	51%	55%	57%
EBIT margin	-1%	9%	4%	23%	34%	33%	30%	29%	32%	35%
Debt/EBITDA	9.0	4.3	4.7	2.4	2.6	2.1	1.8	1.5	1.3	1.1
ROE	-102%	-852%	-306%	8%	16%	22%	24%	24%	24%	24%
ROA	-4%	-3%	-4%	4%	7%	9%	10%	12%	14%	15%

Source: Company data, Barclays Research estimates

FIGURE 32

CAR income statement

RMB mn	2011	2012	2013	2014	2015E	2016E	2017E	2018E	2019E	2020E
Rental revenue	776	1,558	2,208	2,866	4,667	7,473	10,090	12,216	14,523	17,226
Sales of second hand cars	43	51	495	654	757	1,311	3,125	5,298	5,925	6,469
Total revenue	819	1,609	2,703	3,520	5,423	8,783	13,215	17,514	20,449	23,695
Depreciation of rental vehicles	258	536	690	670	995	1,785	2,464	2,737	2,794	2,911
Direct operating expenses of rental services	268	532	862	989	1,321	2,033	2,654	3,188	3,762	4,427
Cost of sales of used vehicles	49	48	522	622	757	1,311	3,125	5,298	5,925	6,469
COGS	575	1,116	2,074	2,281	3,073	5,128	8,243	11,223	12,481	13,808
Gross profit	244	493	629	1,239	2,351	3,655	4,972	6,291	7,968	9,887
Selling and distribution expenses	107	140	153	93	128	204	276	334	397	471
Administrative expenses	149	207	378	350	403	509	683	853	973	1,106
Operating income	-12	146	98	797	1,820	2,942	4,013	5,104	6,598	8,310
Finance costs	141	270	335	309	511	602	720	720	720	720
Other income/(expenses), net	2	-8	21	26	40	65	98	130	152	176
PBT	-151	-132	-216	513	1,350	2,406	3,392	4,514	6,030	7,767
Tax	1	0	7	77	297	529	746	993	1,327	1,709
Profit/(loss) for the year/period	-151	-132	-223	436	1,053	1,877	2,646	3,521	4,703	6,058
Profit attributable to equity owners of the Company	-151	-132	-223	436	1,053	1,877	2,646	3,521	4,703	6,058
EPS basic	-	-	-	0.22	0.51	0.91	1.29	1.71	2.29	2.94
EPS diluted	-	-	-	0.21	0.51	0.91	1.29	1.71	2.29	2.94
Share count	-	-	-	2,057	2,057	2,057	2,057	2,057	2,057	2,057
DPS	-	-	-	-	-	-	-	-	-	-

Source: Company data, Barclays Research estimates

FIGURE 33

CAR balance sheet and forecast

RMB mn	2011	2012	2013	2014	2015E	2016E	2017E	2018E	2019E	2020E
Cash and cash equivalents	637	910	842	1,352	1,516	-124	1,341	1,243	1,081	1,141
Inventories	11	39	330	122	164	274	441	600	667	738
Trade receivables	34	88	208	236	364	590	887	1,176	1,373	1,591
Other current assets	373	194	342	655	904	1,255	1,652	1,946	2,272	2,633
Available for sale investment	0	0	0	1,070	1,070	1,070	1,070	1,070	1,070	1,070
Finance lease receivables	13	36	42	155	53	35	17	1	-15	-30
Total current assets	1,069	1,269	1,765	3,591	4,071	3,099	5,408	6,035	6,448	7,143
Trade payables	6	14	14	25	38	62	93	123	143	166
Other payables and accruals	174	249	318	327	503	815	1,227	1,626	1,898	2,200
Other current liabilities	1,097	1,759	1,912	238	367	595	895	1,186	1,385	1,605
ST interest bearing liabilities	1,542	2,496	2,248	2,779	832	832	832	832	832	832
Total current liabilities	2,819	4,519	4,491	3,369	1,741	2,304	3,046	3,767	4,259	4,803
Rental vehicles	2,414	3,541	4,024	5,234	9,896	15,862	18,993	22,657	27,486	33,438
Other PP&E	60	72	89	214	214	214	214	214	214	214
Finance lease receivables — non-current	16	29	69	133	159	104	52	2	-45	-89
Prepayments	126	42	55	441	441	441	441	441	441	441
Prepaid land lease payments	7	7	7	7	7	7	7	7	7	7
Goodwill	0	2	6	6	6	6	6	6	6	6
Other intangible assets	33	57	145	158	158	158	158	158	158	158
Other long term assets	42	40	7	58	58	58	58	58	58	58
Total long term assets	2,699	3,790	4,402	6,251	10,939	16,851	19,929	23,544	28,326	34,234
Total Assets	3,768	5,058	6,167	9,842	15,010	19,950	25,338	29,579	34,775	41,377
LT interest bearing liabilities	784	498	1,563	832	6,575	9,075	11,075	11,075	11,075	11,075
Deposits received for rental vehicles	9	16	19	15	15	15	15	15	15	15
Deferred tax liabilities	7	10	21	37	37	37	37	37	37	37
Total LT liabilities	801	524	1,603	884	6,627	9,127	11,127	11,127	11,127	11,127
Total Liabilities	3,620	5,043	6,094	4,253	8,368	11,431	14,173	14,894	15,386	15,930
Equity attributable to owners of the parent	0	0	0	0	0	0	0	0	0	0
Issued capital	0	0	0	0	0	0	0	0	0	0
Reserves and accumulated losses	148	16	73	5,589	6,642	8,519	11,164	14,685	19,389	25,447
Total Equity	148	16	73	5,590	6,642	8,519	11,164	14,686	19,389	25,447
Total Invested Capital	3,768	5,058	6,167	9,842	15,010	19,950	25,338	29,579	34,775	41,377
Total PPE	2,474	3,613	4,113	5,448	10,110	16,076	19,207	22,871	27,700	33,652
Total Intangible assets	33	59	151	164	164	164	164	164	164	164
Pension liabilities	0	0	0	0	0	0	0	0	0	0
Other long-term liabilities	16	26	40	52	52	52	52	52	52	52
Total debt	2,326	2,994	3,811	3,611	7,407	9,907	11,907	11,907	11,907	11,907
Net debt	1,689	2,084	2,969	2,258	5,891	10,031	10,565	10,664	10,826	10,766
Minorities	0	0	0	0	0	0	0	0	0	0

Source: Company data, Barclays Research estimates

FIGURE 34

CAR cash flow statement and forecast

RMB mn	2011	2012	2013	2014	2015E	2016E	2017E	2018E	2019E	2020E
Pre-tax profit	-151	-132	-216	513	1,350	2,406	3,392	4,514	6,030	7,767
Tax paid	-1	-3	-3	-20	-297	-529	-746	-993	-1,327	-1,709
Depreciation of rental vehicles	258	536	690	670	995	1,785	2,464	2,737	2,794	2,911
Depreciation of other PP&E	10	19	23	29	0	0	0	0	0	0
Amortisation	2	3	7	9	0	0	0	0	0	0
Finance lease payable as lessee	-8	-3	0	0	0	0	0	0	0	0
Finance costs	141	270	335	309	511	602	720	720	720	720
Interest income	-2	-2	-3	-35	0	0	0	0	0	0
Chg in working capital	-12	84	-453	-543	-100	-123	-119	-22	-99	-106
(Increase) of rental vehicles	-1,701	-1,663	-484	-1,405	-5,657	-7,751	-5,595	-6,401	-7,623	-8,863
(Increase) of finance lease receivable	-23	-35	-44	-177	76	73	69	66	62	59
Others	1	3	-442	-383	0	0	0	0	0	0
Operating cash flow	-1,485	-924	-590	-1,030	-3,122	-3,538	186	621	558	779
Addition to fixed asset	0	0	0	0	0	0	0	0	0	0
Capex	-41	-31	-32	-81	0	0	0	0	0	0
Dividend received	0	0	0	0	0	0	0	0	0	0
Disposals	0	1	1	4	0	0	0	0	0	0
Investments	-52	-4	74	-1,796	0	0	0	0	0	0
Interest received	1	2	3	35	0	0	0	0	0	0
Others	-12	-20	-28	703	0	0	0	0	0	0
NET CASH FLOWS FROM INVESTING ACTIVITIES	-103	-53	18	-1,136	0	0	0	0	0	0
Restricted cash	-7	0	7	-51	0	0	0	0	0	0
Capital injection from shareholders	208	0	0	3,183	0	0	0	0	0	0
Chg in debt	2,036	665	667	-200	3,796	2,500	2,000	0	0	0
Interest paid	-92	-258	-330	-316	-511	-602	-720	-720	-720	-720
Others	0	851	168	62	0	0	0	0	0	0
NET CASH FLOWS FROM FINANCING ACTIVITIES	2,145	1,258	513	2,678	3,285	1,898	1,280	-720	-720	-720
NET INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS	556	281	-59	512	163	-1,640	1,466	-99	-162	60
Effect of foreign exchange rate changes, net	0	-8	-9	-1	0	0	0	0	0	0

Source: Company data, Barclays Research estimates

Valuation

Our price target of HK\$25 is based on a 0.7x PEG multiple applied to our 2015 earnings forecast of RMB0.51, which considers CAR's strong earnings growth profile. The 0.7x PEG multiple we use is within the range of global traditional car rental companies of 0.4x-1.8x while still below the average of 1.1x. We forecast 55% EPS CAGR for CAR (2014– 20E) and 82% EPS CAGR between 2014-2017E, much higher than the global peer average of 31% during same three-year period. Our PT implies 27x/15x/11x P/E for 2015-17E, a slight premium to the average P/E of global traditional car rental companies at 14-33x, which reflects the dominant position held by CAR in China's car rental market. Our peer comps are shown in Figure 36 on page 22 of this report.

Key risks

Key downside risks to our OW rating for CAR includes:

- Failure to manage liquidity and cash flows or inability to obtain additional financing in the future may materially and adversely affect fleet expansion, and hence operating and financial performance.
- CAR may face residual value risk from the disposal of used cars: we estimate every 1% reduction in the second hand car price reduces EPS by 0.6%, keeping everything else equal. The mitigating factor is our view that the fall in second hand car prices should coincide with the decline in new car price, which positively benefits CAR. Therefore, we believe price declines for both second hand cars and new cars are neutral for CAR's financial performance.
- Loss of market share due to competition from existing and new competitors. CAR competes with various companies in the short-term rental market and long-term rental market. If those competitors were able to operate their car rental businesses more successfully, CAR's position may be challenged and thus generate lower-than-expected returns.
- CAR may be negatively affected on selling price for second hand used cars if the auto market continues to see lacklustre sales and pressure on pricing. Given the weakening new car pricing environment in China (see our report titled "*China Autos & Auto Parts: Weakening pricing environment; trim exposure on rally*" published on 5 May 2015), there could be concerns on CAR's financial performance if the selling price of second hand cars also declines. This risk is mitigated by (1) the limited supply of second hand cars, as most Chinese consumers tend to keep their cars much longer than 2-3 years; and (2) CAR's ability to sell its second hand cars directly to retail dealers through its relationship with franchisees or established channel with these dealers.

FIGURE 35

Earnings sensitivity – interest rates, short-term ADRR, short-term fleet utilization and residual price

EPS Chg%	1% decline	1% increase		10% decline
	Interest rate	S-T ADRR	S-T fleet utilization	residual value
2015	1.3%	1.5%	2.3%	-11.1%
2016	0.3%	1.1%	1.7%	-11.1%
2017	0.2%	1.1%	1.6%	-10.9%

Source: Barclays Research estimates

FIGURE 36

CAR – global peer group comparison

	Ticker	Ratings	Price (local ccy)	P/E (x)		EV/EBITDA		EV/EBIT		P/B (x)	ROE (%)		EPS g% 2014-17E	PEG 2015E
				2015E	2016E	2015E	2016E	2015E	2016E		2015E	2016E		
China budget hotel														
China Lodging Group-Spon Ads	HTHT US	NR	25.39	28.5	22.4	8.5	7.2	21.5	18.1	2.8	10%	11%	21.6%	1.3
Homeinns Hotel Group-Adr	HMIN US	NR	26.97	18.1	16.1	6.0	5.5	14.5	13.2	1.5	8%	8%	4.3%	4.2
Average				23.3	19.3	7.2	6.4	18.0	15.6	2.1	9%	10%	12.9%	2.8
China education														
New Oriental Educatio-Sp Adr	EDU US	NR	23.96	18.3	15.0	13.8	11.1	17.7	13.8	3.2	17%	18%	11.2%	1.6
Tal Education Group - Adr	XRS US	NR	36.00	29.7	22.3	22.8	16.2	26.7	18.2	7.0	24%	24%	11.3%	2.6
Xueda Education Gr - Spon Adr	XUE US	NR	3.72	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Average				24.0	18.7	18.3	13.6	22.2	16.0	5.1	20%	21%	11.2%	2.1
China catering														
Cafe De Coral Holdings Ltd	341 HK	NR	28.55	26.7	23.6	15.0	13.5	20.3	18.2	4.3	16%	17%	10.9%	2.5
Ajisen China Holdings Ltd	538 HK	EW	4.10	15.0	13.1	4.7	4.2	7.1	6.2	1.3	8%	9%	10.5%	1.4
Tsui Wah Holdings Ltd	1314 HK	NR	2.44	19.8	16.5	11.0	8.9	17.1	13.6	2.6	13%	15%	19.0%	1.0
Gourmet Master Co Ltd	2723 TT	OW	149.50	22.8	16.9	8.0	6.2	13.8	10.8	2.8	12%	15%	40.4%	0.6
Future Bright Holdings Ltd	703 HK	NR	1.43	5.3	4.8	3.1	2.8	3.6	3.2	0.7	13%	13%	n.a.	n.a.
Average				17.9	15.0	8.4	7.1	12.4	10.4	2.3	13%	14%	20.2%	1.4
China budget hotel, education and catering														
Average				20.5	16.8	10.3	8.4	15.8	12.8	2.9	14%	15%	16.1%	1.9
Traditional car rental companies														
Car Inc	699 HK	OW	17.02	28.7	17.4	12.3	8.1	19.8	12.0	4.8	17%	22%	71.7%	0.4
Ehi Car Services - Spon Adr	EHIC US	NR	16.66	71.0	23.3	10.4	5.8	44.5	17.9	2.4	3%	9%	n.m.	n.m.
Avis Budget Group Inc	CAR US	EW	49.83	14.4	12.5	17.3	15.9	-70.1	-74.4	6.5	45%	43%	21.5%	0.7
Localiza Rent A Car	RENT3 BZ	NR	32.38	16.2	15.1	8.0	7.4	10.5	10.1	3.7	23%	21%	8.8%	1.8
Average				32.8	18.5	13.3	10.8	6.0	-3.0	4.1	19%	21%	31.3%	1.1
China online travel service companies														
Ctrip.Com International-Adr	CTRP US	OW	74.67	88.6	35.0	105.7	32.5	n.m.	45.5	6.6	7%	17%	131.5%	0.7
Qunar Cayman Islands Ltd-Adr	QUNR US	OW	48.53	-21.3	-69.8	-22.1	n.m.	-23.7	-61.0	-23.5	n.m.	n.m.	n.m.	0.1
Tuniu Corp-Spon Adr	TOUR US	NR	18.65	-9.3	-12.8	-6.3	-6.2	-5.1	-4.5	11.2	n.m.	n.m.	-30.1%	0.3
Average				19.3	-15.9	25.7	13.2	-14.4	-6.7	-1.9	7%	17%	50.7%	0.4
Global online travel service companies														
Priceline Group Inc/The	PCLN US	NR	1,163.27	21.1	17.5	16.9	14.0	17.9	14.8	5.8	27%	27%	18.9%	1.1
Tripadvisor Inc	TRIP US	NR	75.21	33.8	26.2	19.8	15.5	22.0	17.8	7.9	23%	24%	33.9%	1.0
Expedia Inc	EXPE US	NR	105.02	28.3	20.6	12.7	10.1	21.7	15.7	6.0	21%	24%	25.3%	1.1
Average				27.7	21.5	16.5	13.2	20.5	16.1	6.5	24%	25%	26.1%	1.1
China auto O2O services														
Autohome Inc-Adr	ATHM US	OW	45.22	4.7	3.5	21.8	15.8	23.4	17.3	1.3	27%	27%	60.6%	0.1
Bitauto Holdings Ltd-Adr	BITA US	OW	60.03	62.8	23.4	42.7	18.6	78.6	24.8	2.9	5%	12%	33.8%	1.9
Average				33.8	13.4	32.3	17.2	51.0	21.0	2.1	16%	19%	47.2%	1.0

Source: Bloomberg, Barclays Research. Notes: Prices as of the market close on Price as of 10 June 2015. Stock ratings: OW: Overweight; EW: Equal Weight; UW: Underweight; NR: Not Rated. For full disclosures on each covered company, including details of our company-specific valuation methodology and risks, please refer to <http://publicresearch.barcap.com>.

APPENDIX I – CAR’S SHAREHOLDING STRUCTURE AND MANAGEMENT TEAM

CAR Inc. (CAR) was established in September 2007 and is headquartered in Beijing. CAR acquired two companies in China from independent third parties through CAR Beijing namely Shanghai Shenzhou Huadong Auto Rental Co., Ltd for RMB25.5 million in September 2010 and Beijing Beichen Auto Rental Co., Ltd for approximately RMB54.73 million in April 2011 according to the prospectus. It has since rapidly become the market leader in China’s car rental industry in terms of fleet size, revenue, network coverage and brand awareness. After several rounds of capital injections and pre-IPO investment (Figure 37), CAR was listed on the Hong Kong Stock Exchange on 19 September 2014.

CAR has received encouraging customer and social reviews since its establishment. In 2008, CAR was the official car rental service provider of the 29th Summer Olympic Games, and was awarded the 21th Century Future Star by China Entrepreneur magazine. In 2009, CAR made the list of Forbes China's Potential Enterprises. In 2010, CAR was named New Fortune's Highest Potential Business Model and China.com's Annual Best Car Rental Service. In 2011, CAR received the Best Service Award given by China Brand Festival, Best Car Rental Company by National Geographic Traveler and Harvard Business Review’s 5th Management Action Gold Award.

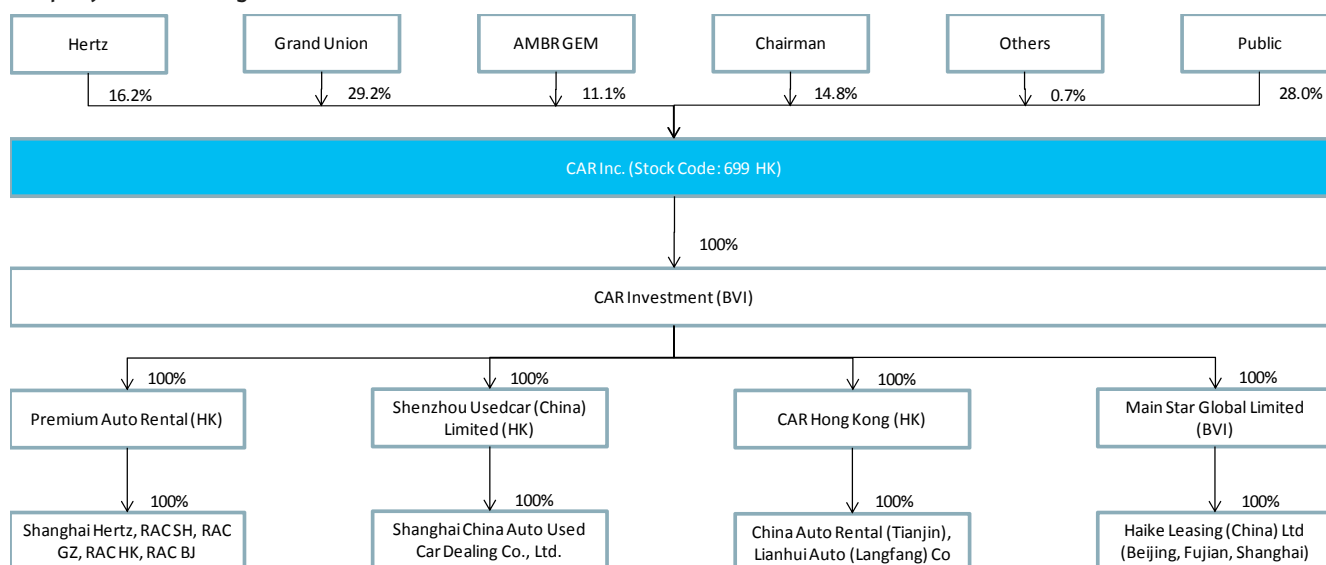
FIGURE 37
CAR key milestones

Year	Milestone
Sep-07	CAR Beijing was founded.
Aug-10	LC Fund III, L.P., through its indirect subsidiary Lianhui Langfang, invested approximately RMB14.5 million in CAR Beijing.
Jan and Jun 2011	Legend Holdings, through its indirect wholly-owned subsidiary Huaxia Auto Network, made a strategic investment of approximately RMB207.8 million in CAR Beijing.
Jan-12	Grand Union became the largest shareholder of CARH upon acquiring 2,538 and 5,548 shares of CARH from LC Fund III, L.P. and Right Lane Limited, respectively.*
Jul and Sep 2012	Warburg Pincus XI, through Amber Gem, made an aggregate investment of US\$200 million in CARH in exchange for 86,094,268 Series A Preferred Shares.
May-13	Hertz invested US\$100 million in CARH and contributed all of the equity interests in the Hertz Transferred Subsidiaries to CARH, in exchange for a US\$100 Million convertible note and US\$36 Million convertible note, respectively.
19-Sep-14	Listed on the Hong Kong Stock Exchange.

Source: Company data, Barclays Research *Legend Holdings holds interests in certain limited partners of Grand Union. Grand Union is controlled by a general partner, Grand Union Management Limited. Legend Holdings holds a 20% non-controlling interest in Grand Union Management Limited.

FIGURE 38

Company shareholding structure



Source: Bloomberg, Company data, Barclays Research

FIGURE 39

CAR – Profile of senior management

Name	Age	Position	Background
Charles Zhengyao, LU	45	ED, CEO and Chairman	The company’s founder. Mr Lu graduated from the University of Science & Technology of Beijing and received an EMBA degree from Peking University. Mr Lu was a former President of Beijing Shenzhou Deke Technology Development Co, former President of Beijing Huaxia United Science & Technology. He founded Huaxia United Automobile Association Co. Ltd and served as CEO, established CARH and is currently CEO, Chairman and Director.
Linan ZHU	52	Non-executive Director	Mr Zhu has been a director of CAR since 2010 and was also a director of Grand Union Management Limited since 2011. He graduated from Shanghai Jiao Tong University and was the former head of corporate strategic planning department and senior VP for Lenovo Group, a former director of Legend Holdings, and former President of Legend Capital Limited.
Erhai LIU	46	Non-executive Director	Mr Liu received a Master’s degree from Xidian University and an MBA from Fordham University. He is an MD of Legend Capital and holds directorships in Bitauto, Universal Education Holdings, Coremax Group and Grand Union Management.
Hui LI	46	Non-executive Director	Mr Li was an independent director of Synutra and China Biologic Products. He graduated from Renmin University and has a Master’s degree from Yale. He was a former banker for MS and GS. He was a former MD of Warbug Pincus, a former non-ED of Kasen International and a former Non-ED of Intime department store.
Narasimhan Brahmadesam SRINIVASAN	42	Non-executive Director	SVP of an affiliate of Hertz Holdings. Graduated from the University of Pennsylvania with an MBA from Columbia.
Sam Hanhui SUN	42	Independent non-executive Director	CAR’s Chairman of Audit and Compliance Committee. He was also the CFO of Qunar and chairman of the audit committee of SouFun.com. Graduated from Beijing Institute of Technology and has a CPA.
Wei DING	55	Independent non-executive Director	CAR’s Chairman of Remuneration Committee and member of the board for Hwa Pao Investment. Graduated from Renmin University.
Li ZHANG	47	Independent non-executive Director	CAR’s Chairman of Nomination Committee and Deputy Dean of the National School of Development at Peking University. Graduated from Tianjin Institute of Textile Science & Technology, Master of Renmin University and a PhD from the Ohio State University.
Lei LIN	47	Independent non-executive Director	Also independent director of Synutra and New Focus Auto Tech Holdings Limited. Graduated from Renmin University.
Jenny Zhiya QIAN	38	Executive VP and COO	Graduated from Wuhan Institute of Textile Science and received an EMBA from Peking University.
Yaxiao LIU	41	Executive VP and CIO	Graduated from Tsinghua University with a bachelors and master degree in computer science. Former CTO of Global Technology Service for IBM Greater China Group.
Wilson Wei LI	37	Executive VP and CFO	Graduated from Fudan University and is a Graduate of Finance Management Programme by GE. Former CFO for Global Supply Chain Asia group in GE Healthcare and former CFO of UniTrust Finance & Leasing Corporation.
Yifan SONG	38	Executive VP	Graduated from Beijing Union University and obtained an MBA degree from the Central University of Finance and Economics of China.
Ka Man SO	41	Company secretary	Also the company secretary of Embry Holdings Limited. Ms. So is a chartered secretary and an associate of both the HKICS and Institute of Chartered Secretaries and Administrators in the UK. Graduated from the Hong Kong Polytechnic University.

Source: Company data, Barclays Research

APPENDIX II – CHAUFFEURED CAR SERVICE COMPARISON

FIGURE 40

Chauffeured car service comparison in China

	UCAR	Yidao		Didi&Kuaidi		Uber	
General							
Car Ownership	Company cars	Company cars	Private cars	Company cars	Private cars	Taxi	Private cars
Fuel paid by	Company	Company	Driver	Driver	Driver	Driver	Driver
Driver income	Fixed salary + bonus	82% of car fare	90% of car fare	60%-80% car fares-RMB210 paid to Kuaidi for car rental +RMB95 base salary	80% car fares	Taxi fares – Fuel – fixed fee paid to taxi company	All car fares/70% if registered under leasing companies
Cars							
Key models	Passat, Camry, Regal, GL8, A6, BMW 5 Series	Accord, Passat, Tesla, GL8, A6L, BMW 5, E series, S series, BMW 7	Majority low-mid end cars	Passat, Teana, Cruz	Choice of "comfort" and "luxury"	Low-mid end mass market cars, such as the Elantra in Beijing and VW Santana in SH	Low-mid for People's Uber and high-end for Black Uber
Car comfort	★★★	★★★	★★	★★★	★★	★	★★-★★★
Fares	★★★★	★★★★	★★★★	★★★★	★-★★★★	★★	★★★★
Payment method	Credit Card/Prepaid			Cash/Alipay/Wechat	Cash/Alipay/Wechat	Cash/Alipay/Wechat	Alipay/Credit card
Discount/Promotion events	Currently runs a RMB100 rebate on RMB100 program, after taking into consideration fares are similar to taxis	RMB70 off for first time users	RMB70 for first time registration	Subsidy RMB20-25 per ride	Subsidy RMB20-25 per ride	No discount	Discount available if personal codes shared with friends
Service							
Clients screening	No	Yes	Yes	Yes	Yes	Yes	No
Service type	Call/Appointment /Day rental	Call/Appointment /Day rental	Call/Appointment /Day rental	Call	Call	Call	Call
Receipt for fares (important for business travel)	>RMB200 free mail delivery	accumulate to RMB300 free mail delivery	accumulate to RMB300 free mail delivery	>RMB200 free mail delivery	>RMB200 free mail delivery	Instant receipt	>RMB200 free mail delivery
Free water on board	Yes	Yes	Yes	Sometimes	Sometimes	No	Sometimes
Free Wifi on board	Yes	No	No	No	No	No	Sometimes
Mobile phone charger	Yes	Yes	Yes	Sometimes	Sometimes	No	Sometimes
Professional appearance	Suits	No	No	No	No	No	No
Insurance in case of accident	RMB1000k	¥200k	No	¥500-1000k	No	Fully covered by taxi operating company	No
APP							
Map	★★★	★★★	★★★	★★★	★★★	★★★	★★
User friendly	★★★	★★★★	★★★★	★★★	★★★	★★★	★★
Fare calculation	Fixed	Fixed	Fixed	Fixed	Fixed	Fixed	Float
Additional Comments							
Positive	Full time drivers with professional service skills/good amenities / No customer screening	Full time drivers/ Professional service/Variety choices of cars		Fares cheaper than UCAR and Yidao	Fares cheaper than UCAR and Yidao	Instant receipt/ Regulated	Globally available/meeting interesting people/No customer screening
Negative	longer pickup time than other chauffeured cars due to limited availability of vehicles/High car fare	High car fare	Uncertainty in insurance coverage	Lower class of cars vs UCAR and Yidao	Sometimes unprofessional drivers	difficult to get during rush hour (in cities such as Beijing and Shenzhen)/ minimal service	Unclear user interface with mixed Chinese English/Google map inaccuracy

Source: Sina.com, ifeng.com, Barclays Research

APPENDIX III – A LOOK AT TAXI SERVICES IN CHINA

As chauffeured car services are in competition with taxi services, and one of the reasons for the existence of chauffeured cars is the difficulty in locating a taxi in many cities in China, we believe it worth taking a look at the status quo of the taxi industry in China.

Taxi services are a regulated industry in China, as the government regulates the number of taxi licenses, and only government-owned taxi companies are allowed to operate taxi services, whilst taxi drivers pay a fixed fee every month to these taxi companies for the right to drive a taxi. The fee amount is set by each municipal government and typically in the range of RMB200-300/day as shown in Figure 41.

FIGURE 41

Fees charged by taxi companies in different cities

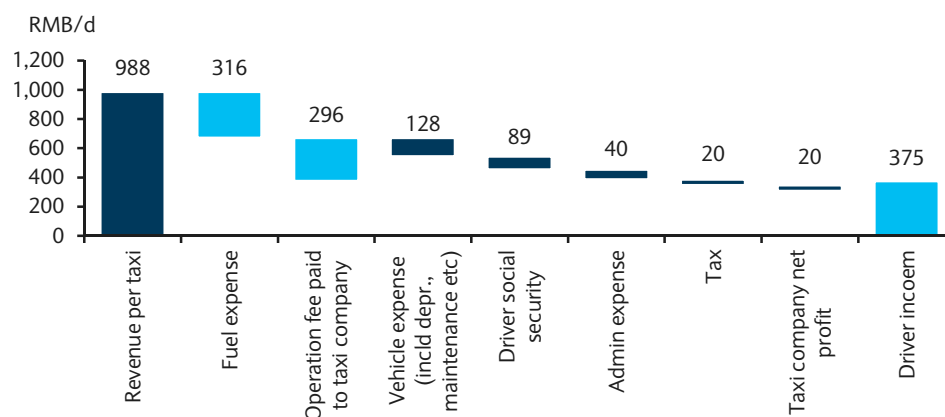
	Taxi operation fee	Average Monthly Fee	Average Daily Fee
1	Beijing	6,406	214
2	Shanghai	8,892	296
3	Nanjing	6,850	228
4	Shenzhen	11,743	391
5	Guangzhou	8,000	267
6	Chongqing	10,000	333
7	Chengdu	12,000	400
8	Wuhan	5,000	167
	Average	8,611	287

Source: Sohu.com, Barclays research estimate

The seemingly high charges imposed by taxi companies on their drivers have been blamed for the lack of competitiveness of taxis against chauffeured/private-hire cars, cited as the key reason for the prevalence of “illegal taxis” found easily in airports or train stations in China, and sometimes even for personal financial problems experienced by taxi drivers.

Our analysis however shows a low return for these taxi companies (Figure 41-Figure 43), suggesting this perception appears to be misplaced. We use Shanghai as an example to analyze the economics of taxi services. According to an assessment published by the Shanghai NDRC in 2014, taxi fares are generally split three-ways: approximately 32% of the fare covers fuel expense, 30% goes to taxi companies and 38% goes to the drivers as shown in Figure 42. Despite receiving 30% of the total taxi fare, taxi companies’ net profit margin was just 6.7% (Figure 42), and their IRR on investment was about 11% (Figure 43), as taxi companies incur a significant expense on car depreciation and drivers’ social security and insurance payments.

FIGURE 42
2013 average revenue and expense per day for a taxi in Shanghai



Source: Shanghai NDRC, Barclays research

FIGURE 43
Example of an IRR for a taxi service company (RMB '000)

Year	0	1	2	3	4	5
Depreciation		20.0	20.0	20.0	20.0	20.0
net profit		7.2	7.2	7.2	7.2	7.2
Capex	-100					
Cash flow	-100	27.2	27.2	27.2	27.2	27.2
IRR	11.2%					

Source: Shanghai NDRC, Barclays research estimate

Why are taxis so hard to find in Beijing?

We also provide a brief analysis on why it is so difficult to get taxis in some Chinese cities. As shown in Figure 44, China's metropolitan cities have a similar number of taxis on a per capita basis compared to global peers, but have far less on a per square kilometre basis. As such, we believe that an inadequate number of taxis and the higher demand as China's car ownership penetration is still much lower than developed countries are the main reasons for the difficulty in getting a taxi in many Chinese cities.

FIGURE 44
Comparison of taxi density in different cities

	# of taxis	Population (mn)	taxis per '000 capita	land area (km ²)	taxis per sqkm
Singapore	28,672	5.3	5.4	714	40.2
Hong Kong	18,138	7.2	2.5	1,104	16.4
New York	13,000	8.4	1.5	790	16.5
London	22,600	8.2	2.8	1,581.8	14.3
Beijing	67,046	20.7	3.2	16,411	4.1
Shanghai	50,612	23.8	2.1	6,341	8.0
Tianjin	31,940	14.1	2.3	11,917	2.7
Shenzhen	15,000	10.5	1.4	1,953.0	7.7
Nanjing	12,000	8.2	1.5	6,587.0	1.8
Average for global peers			3.1		21.8
Average for Chinese cities			2.1		4.9

Source: sg.gov, UK.gov, HK.gov, Wind, Barclays research estimate

Chauffeured car services lead to reforms in the taxi industry

New market entrants such as Yidao, Uber and UCAR in addition to the legalization of chauffeured car services by the Department of Transport in January 2015 have started to unsettle the established order within the taxi service industry. This has not only led to strong opposition from incumbents – mainly taxi drivers, the most affected economically as they pay a fixed payment to the taxi companies but are seeing reduced business due to competition – but has also been a catalyst for potential reforms in the taxi service industry.

The Yiwu reform: On 15 May 2015, the City of Yiwu (Zhejiang province) became the first city announcing a Taxi Industry Reform plan (“The Yiwu Plan”). The Yiwu Plan stipulates (1) a 50% reduction of fees charged by taxi companies in 2015 (to RMB5000/yr from RMB10,000/yr), and a complete fee waiver in 2016; (2) to gradually relax the control of taxi fares from government-fixed to government-guided and (3) relinquish the control of the number of taxi licenses starting in 2018.

Department of Transport’s (DoT) taxi reform agenda: Following the Yiwu announcement, on 21 May 2015, Mr. Wang, Shuiping, a deputy director at DoT announced that a work group has completed the first draft for the nation-wide Taxi Industry Reform. Mr. Wang commented that the reform will focus on (1) Taxi capacity / fleet management, (2) pricing mechanism, (3) establishing an open and transparent regulatory environment; and (4) encouraging innovation.

Although nation-wide reform is some time away from implementation, we believe if successful, it could create strong competitive pressure on low-end chauffeured car services that are currently taking market share away from taxis, but would have a limited impact on high-end chauffeur services.

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Primary Stocks (Ticker, Date, Price)

CAR Inc. (0699.HK, 10-Jun-2015, HKD 17.02), Overweight/Neutral, J

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Cheng Shin Rubber Industry Co., Ltd. (2105.TW)	CUB Elecparts (2231.TW)	Dongfeng Motor Group Co., Ltd. (0489.HK)
Exide Industries (EXID.NS)	Geely Automobile Holdings Ltd. (0175.HK)	Great Wall Motor Co., Ltd. (2333.HK)
Guangzhou Automobile Group Co., Ltd. (2238.HK)	Halla Visteon Climate Control (018880.KS)	Hankook Tire Co., Ltd. (161390.KS)
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Hyundai Motor Company (005380.KS)	Hyundai Wia Corp. (011210.KS)	Iron Force (2228.TW)
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Mando Corp. (204320.KS)	Maruti Suzuki India Limited (MRTI.NS)	Motherson Sumi Systems (MOSS.NS)
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CAR Inc. (699 HK / 0699.HK)

HKD 17.02 (10-Jun-2015)

Stock Rating

OVERWEIGHT

Industry View

NEUTRAL

Rating and Price Target Chart - HKD (as of 10-Jun-2015)

Currency=HKD



Date	Closing Price	Rating	Adjusted Price Target
10-Jun-2015	17.02	OVERWEIGHT	25.00

Source: IDC, Barclays Research

[Link to Barclays Live for interactive charting](#)

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Valuation Methodology: Our price target of HK\$25 is based on 0.7x PEG, implying 27x/15x/11x P/E for 2015-17E. This is supported by CAR's clear leadership in China's fast growing short-term car rental market and our view of its emerging dominance in the high-end chauffeured car service market.

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