

## Grow to a provider of comprehensive trip solutions amid evolution

23 Jun 2015

### Investment Highlights

- ❖ **Company profile: CAR Inc. is the largest car rental company in China and has a 30%+ share in the short-term car rental market.** As of the end of 2014, the Company had a fleet of 44k autos for short-term rental service and 9368 autos for long-term rental service (the second largest car rental company in China reported a fleet of 20k autos during the same period), up 29%/50% YoY, respectively. In 2014, it logged turnover of Rmb3.52bn (+30%) and net profit of Rmb440mn (2013A: loss of Rmb220mn), of which income from short-term rental contracts rose to Rmb2.3bn, representing a market share of more than 30%. In 1Q15, the Company recorded turnover of Rmb1bn (+31%) and net profit of Rmb180mn (+80%). By actively developing the "Private Car" (a kind of high-end taxi service where the passengers are offered quality services such as tissue, water etc.) business, the Company is expected to become a comprehensive mobile trip solutions provider in future.
- ❖ **Car rental: CAR Inc. boasts remarkable competitive edges and is forecast to see a 25% CARG over the next three years.** As a veteran industry leader, the Company has set up first-mover advantages in fleet size, license resources, outlet distribution and industry chain (it has forged a closed loop of business that comprises of car procurement – rental – second-hand car sales). Its third largest shareholder, Hertz, is experienced in fleet management. We forecast that the Company's short-term rental fleet will maintain a ~20% growth, and income from its traditional car rental service will grow by 25% over the next three years.
- ❖ **Private Car: the UCAR Shenzhou Private Car business is forecast to contribute 23%/39% of revenue/net profit in 2015E thanks to the policy tailwind.** The Company launched the "UCAR Shenzhou Private Car" service in cooperation with UCAR, an independent third-party chauffeured car service provider, and plans to expand the fleet to 35,000 units (27,000 for long-term rental service + 8,000 for short-term rental service). Besides, the Company has the right of first refusal in UCAR's future equity financings. Such a cooperation mode is expected to help segregate the financial risks in the early stage and support the Company to expand into strategic business in future. As the Ministry of Transport clearly prohibits privately-owned cars from offering private car service, the Company boasts a notable advantage in fleet size. Thanks to increase in the day rate and car utilization ratio, as well as decline in operational cost, we expect the private car business to account for 30%/48% of the Company's revenue/net profit, compared with the projected 23%/39% in 2015E.
- ❖ **Provider of comprehensive mobile trip solutions: Popularization of the mobile Internet technology changes the taxi hailing methods. The Company is expected to enter emerging fields such as P2P and carpooling etc. Represented by car hailing, private car and**



### OVERWEIGHT

(Initial Coverage)

Current price: HK\$17.06

Target price: HK\$20.50

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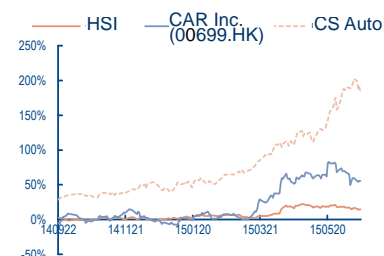
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### Performance relative to the index



Source: CITICS Quantitative Investment Analysis System

### Main data

HSI	26694.66
Total equity/shares o/s (mn)	2369/2369
LTM High/low (HK\$)	22 / 9.88
1-month absolute gain	-5.43%
6-month absolute gain	16.08%
YTD Absolute gain	55.94%
LTM Average daily turnover (HK\$ mn)	116

**carpooling services, popularization of mobile Internet technologies stands to continuously improve and expand the car rental demand.** Leveraging on its solid strength in platform, funds and offline outlets, the Company will likely tamp down its strength in the short-term rental and private car service markets while actively breaking into emerging fields (including P2P and carpooling), thus becoming a provider of comprehensive mobile trip solutions.

- ❖ **Risks associated with investing in the Company:** Weak demand for short-term car rental service, uncertainties in the policy environment, and slower-than-expected development of new businesses such as the private car and carpooling services.
- ❖ **Earnings forecast, valuation and investment rating:** We forecast the Company's 2015/16/17E EPS to be Rmb0.44/0.69/0.85 (2014A: Rmb0.18). Its last price (HK\$17.06) implies 31x/20x/16x prospective 2015/16/17E PER. In the future, 1) the Company is expanding beyond the traditional short-term car rental service into new fields such as the private car service, which will allow it to grow into a provider of diversified traveling solutions from a car rental service provider; 2) its profit is expected to maintain rapid growth over next two years. Factoring in valuation of comparables, such as other car rental companies and the chauffeured car service providers (Didi-Kuaidi: US\$15bn; Uber: over US\$40bn), we believe that the Company merits ~24x 2016E PER. We set its target price at HK\$20.5 and initiate OVERWEIGHT.

Item/Year	2013	2014	2015E	2016E	2017E
Turnover (Rmb mn)	2,703	3,520	5,775	8,017	10,850
Growth rate YoY%	68.0	30.3	64.1	38.8	35.3
Net profit (Rmb mn)	-223	436	1,033	1,641	2,019
Growth rate YoY%	68.8	-295.2	137.0	58.8	23.0
Gross margin (%)	23.5	35.0	42.6	45.3	42.8
EPS (Rmb)	-	0.18	0.44	0.69	0.85
BVPS (Rmb)	-	2.4	2.7	3.1	3.7
PE (x)	-	76	31	20	16
PB (x)	-	5.8	5.1	4.3	3.6

Source: CITICS Quantitative Investment Analysis System

Note: Closing price as of 18 Jun 2015

## Income Statement (Rmb mn)

Indicator	2013	2014	2015E	2016E	2017E
Turnover	2,703	3,520	5,775	8,017	10,850
Operating cost	2,074	2,281	3,315	4,385	6,206
Gross margin	23.3%	35.2%	42.6%	45.3%	42.8%
Selling & distribution expense	153	93	173	183	275
Selling & distribution expense ratio	5.65%	2.63%	3.00%	2.28%	2.53%
Administrative expense	378	350	611	802	1,139
Administrative expense ratio	13.99%	9.94%	10.58%	10.00%	10.50%
Financial expense	335	309	429	679	808
Financial expense ratio	12.38%	8.79%	7.43%	8.47%	7.45%
Investment revenue	0	0	0	0	0
Operating profit	-237	487	1,230	1,954	2,404
Operating profit margin	-8.76%	13.84%	21.30%	24.37%	22.16%
Non-operating income	21	26	0	0	0
Non-operating expenditure	0	0	0	0	0
Total profit	-216	513	1,230	1,954	2,404
Income tax	7	77	197	313	385
Income tax rate	-3.4%	15.0%	16.0%	16.0%	16.0%
Minority interests	0	0	0	0	0
Net profit attributable to shareholders	-223	436	1,033	1,641	2,019
Net margin	-8.26%	12.39%	17.89%	20.47%	18.61%
EPS (Rmb, diluted)	-0.09	0.18	0.44	0.69	0.85

## Cash Flow Statement (Rmb mn)

Indicator	2013	2014	2015E	2016E	2017E
Net profit	-223	436	1,033	1,641	2,019
Minority interests	0	0	0	0	0
Depreciation & amortization	720	709	1,485	2,087	2,569
Change in working capital	-1,500	-2,600	-616	-548	-765
Others	413	425	446	693	826
Operating cash flow	-590	-1,030	2,348	3,874	4,650
CAPEX	-60	-103	-7,070	-5,045	-4,025
Investment revenue	3	35	0	0	0
Disposal of assets	0	725	0	0	0
Others	75	-1,792	0	0	0
Investing cash flow	18	-1,136	-7,070	-5,045	-4,025
Stock issuance	825	3,327	0	0	0
Bond financing	-312	-649	5,102	1,489	2,200
Financing cash flow	513	2,678	5,102	1,843	1,392
Net increase in cash and equivalent	-59	512	380	672	2,018

Source: CITICS Quantitative Investment Analysis System

## Balance Sheet (Rmb mn)

Indicator	2013	2014	2015E	2016E	2017E
Cash and cash equivalent	842	1,352	1,733	2,405	4,423
Inventory	330	122	265	351	497
Accounts receivable	208	236	425	590	799
Other current assets	385	1,880	2,224	2,586	3,051
Current assets	1,765	3,591	4,647	5,932	8,768
Fixed assets	4,113	5,448	11,028	13,981	15,432
Long-term equity investment	69	133	133	133	133
Intangible assets	151	164	169	174	179
Other long-term assets	69	506	506	506	506
Non-current assets	4,402	6,251	11,837	14,794	16,250
Total assets	6,167	9,842	16,484	20,726	25,018
Short-term borrowing	2,248	2,779	2,310	800	0
Accounts payable	14	25	33	44	62
Other current liabilities	2,230	565	633	702	756
Current liabilities	4,491	3,369	2,977	1,545	818
long-term liabilities	1,563	832	6,832	9,832	12,832
Other long-term liabilities	40	52	52	52	52
Non-current liabilities	1,603	884	6,884	9,884	12,884
Total liabilities	6,094	4,253	9,861	11,429	13,702
Share capital	0.0	0.2	0.2	0.2	0.2
Capital reserve	73	5,589	6,623	9,297	11,316
Owner's equity	73	5,590	6,623	9,297	11,317
Minority interests	0	0	0	0	0
Liabilities & owner's equity	6,167	9,842	16,484	20,726	25,018

## Major financial indicators

Indicator	2013	2014	2015E	2016E	2017E
Growth rate (%)					
Turnover	68.0	30.3	64.1	38.8	35.3
Operating profit	90.6	(305.8)	152.5	58.8	23.0
Net profit	68.8	(295.2)	136.9	58.8	23.0
Margin (%)					
Gross margin	23.3	35.2	42.6	45.3	42.8
EBIT Margin	3.6	22.6	29.0	33.0	29.8
EBITDA Margin	30.3	42.8	54.7	59.1	53.4
Net margin	(8.3)	12.4	17.9	20.5	18.6
Return (%)					
ROE	(306.2)	15.4	16.9	20.6	19.6
ROA	(3.6)	5.4	7.8	8.8	8.8
Others (%)					
Liability/asset ratio	98.8	43.2	59.8	55.1	54.8
Income tax rate	(3.4)	15.0	16.0	16.0	16.0
Dividend payout ratio	0.0	0.0	0.0	0.0	0.0



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	HOLD	Increase relative to market representative index between -10% and 5%
	SELL	Decrease relative to market representative index over 10%
Industry ratings	OUTPERFORM	Increase relative to market representative index over 10%
	NEUTRAL	Increase relative to market representative index between -10% and 10%
	UNDERPERFORM	Decrease relative to market representative index over 10%

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