Morgan Stanley

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# Baoxin Auto Group

## Evolving business model; upgrade to OW

| Industry View | Stock Rating | Price Target |
|---|---|---|
| **Attractive** | **Overweight** | **HK$6.50** |

Amid industry consolidation, we believe the strong growth of Baoxin's used car business (via its O2O auto platform) and after-sales business, plus other value-added services, are set to improve its margin in the next few years. We think its evolving business model justifies a higher multiple.

| What's Changed? | From: | To: |
|---|---|---|
| **Baoxin Auto Group** | | |
| Price Target | HK$5.50 | HK$6.50 |
| Rating | Equal-weight | Overweight |

**Changes in dealership industry are positive for Baoxin:** Since the new car sales business is no longer as profitable as before, small dealers with that as their single business are likely to be phased out of the industry amid industry consolidation. We believe leading dealers with multiple businesses, such as Baoxin, should be able to maintain their profitability and gain market share at a relatively lower cost.

**O2O auto platform to drive used car sales growth:** Supported by Cox Auto and China Merchants Bank, Autostreets is likely to grow as one of the leading O2O auto platforms, in our view. Moreover, its cooperation with over 5,000 dealers provides it with sufficient used car supply. Baoxin could get 2-3% of the used car price as commission, and stronger-than-expected growth of its used car sales could lead to fast growth of its profits.

**Evolving business model justifies a narrowing of the P/E gap vs. global peers:** Baoxin is also improving its business composition with more contribution from high-margin businesses such as after-sales services and other expanding services. This business model has been proven successful in developed countries such as the US. Based on Bloomberg consensus, auto dealers gloablly (mainly in the US) currently trade at an average 2016e P/E of 16.7x, a ~120% premium over Baoxin's P/E of 7.7x We think a higher multiple for Baoxin is justified.

**Our new price target implies 22% upside:** In addition to our EPS estimate increases, we lift the terminal EBIT margin in our DCF model to 4.2% from 4% to reflect long-term margin improvement from its optimal business composition.

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**Baoxin Auto Group ( 1293.HK, 1293 HK )**

**China Autos & Auto Parts** / China

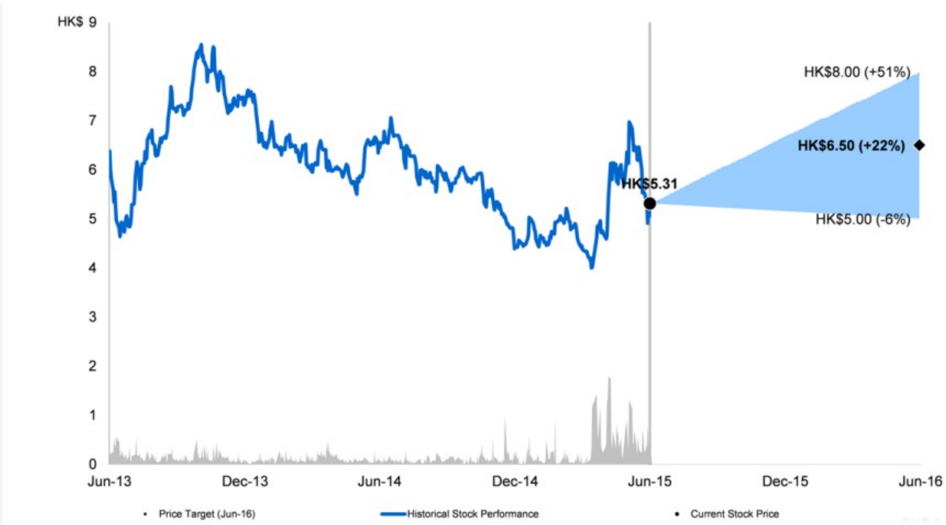
| | |
|---|---|
| **Stock Rating** | **Overweight** |
| **Industry View** | **Attractive** |
| Price target | HK$6.50 |
| Up/downside to price target (%) | 22 |
| Shr price, close (Jun 19, 2015) | HK$5.31 |
| 52-Week Range | HK$7.28-3.92 |
| Sh out, dil, curr (mn) | 2,557 |
| Mkt cap, curr (mn) | Rmb10,876 |
| EV, curr (mn) | Rmb16,842 |
| Avg daily trading value (mn) | HK$20 |

| Fiscal Year Ending | 12/14 | 12/15e | 12/16e | 12/17e |
|---|---|---|---|---|
| ModelWare EPS (Rmb) | 0.28 | 0.38 | 0.46 | 0.52 |
| Prior ModelWare EPS (Rmb) | - | 0.37 | 0.45 | 0.51 |
| Consensus EPS (Rmb)§ | 0.43 | 0.44 | 0.53 | 0.64 |
| Revenue, net (Rmb mn) | 30,723 | 31,091 | 34,652 | 37,506 |
| EBITDA (Rmb mn) | 1,989 | 2,268 | 2,694 | 3,064 |
| ModelWare net inc (Rmb mn) | 707 | 977 | 1,165 | 1,330 |
| P/E | 13.0 | 11.1 | 9.3 | 8.2 |
| P/BV | 1.8 | 1.8 | 1.6 | 1.4 |
| RNOA (%) | 12.3 | 12.6 | 15.1 | 15.8 |
| ROE (%) | 15.1 | 19.2 | 19.7 | 19.2 |
| EV/EBITDA | 7.6 | 7.0 | 5.9 | 5.1 |
| Div yld (%) | 1.1 | 1.3 | 1.6 | 1.8 |
| FCF yld ratio (%) | (1.3) | 10.0 | 2.1 | 5.2 |
| Leverage (EOP) (%) | 116.0 | 83.7 | 70.7 | 56.0 |

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework
§ = Consensus data is provided by Thomson Reuters Estimates
e = Morgan Stanley Research estimates

## Risk-Reward

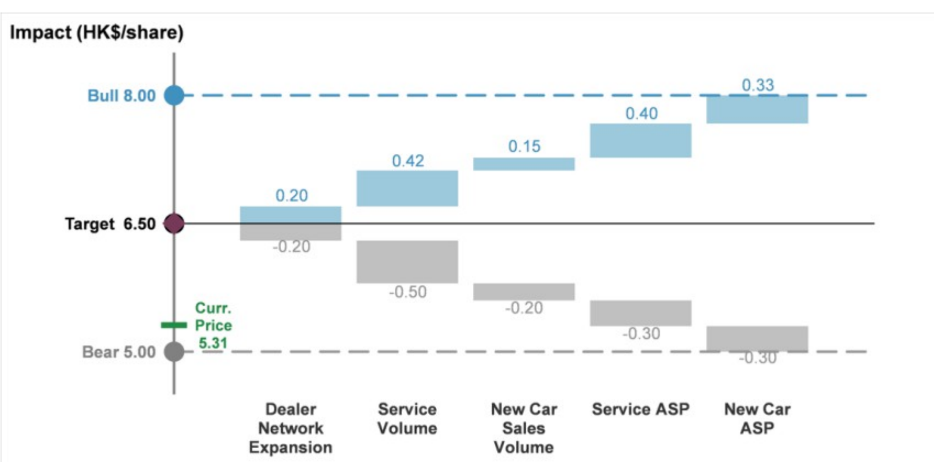
### More upside than downside on our revised scenario values




Source: Thomson Reuters, Morgan Stanley Research estimates

| | | |
|---|---|---|
| **Bull** 14.1x bull case 2016e EPS | **HK$8.0** | **Robust sales growth and stable margins:** Dealership network maintains fast expansion, while per-dealership sales performance continues to improve. |
| **Base** 11.4x base case 2016e EPS | **HK$6.5** | **Stable growth with more contribution from high-margin business:** Greater profit contribution from high-margin after-sales services, accessories, and used car sales, with healthy pricing and new car margin recovery. |
| **Bear** 8.8x bear case 2016e EPS | **HK$5.0** | **Sluggish profitability recovery:** Sluggish new store expansion with intensifying competition, which further compresses margins and affects profit growth. |

**Exhibit 1:** After-sales service and other expanding service become more important




Source: Morgan Stanley Research

#### Why we move to overweight

- We expect Baoxin's expanding services to record strong growth in the next few years, which will help to improve its margins.
- After-sales business contribution to total gross profit keeps improving, to 52% in 2014 from 44% in 2013. We expect further increases in future.
- We expect Baoxin's new car margins for BMW dealerships to face less pressure in 2015, since BMW has cut its 2Q15 sales targets and is likely to increase subsidies to dealers.
- As one of China's largest auto dealer groups, Baoxin should benefit from the long-term growth trend we forecast for China's luxury car market.
- Baoxin has slowed its network expansion since 2014; it will only open 5-7 4S stores in 2015, which prevents it from sustaining significant new store losses.
- Our price target of HK$6.5 implies 11.5x 2016e P/E, which is still at the low end of its historical forward P/E range of 10-17x since 2013.

#### Key Value Drivers

- Network expansion.
- New car sales pricing recovery with steady growth in sales volume.
- Fast-growing after-sales business and other services with high and stable margins.

#### Potential Catalysts

- OEMs further lower sales targets in China, causing supply to normalize and easing dealers' inventory.
- Success in expanding the used car business, especially for BMW and Audi.
- Strategic investment in Baoxin's O2O auto platform, Autostreets, by a strong Internet company could help attract online traffic.

#### Risks to Achieving Price Target

- Weaker-than-expected new car sales margins if OEMs maintain aggressive targets in China, leading to even tougher price competition.
- Slower-than-expected growth of after-sales and other expanding services, as high-margin nature of these businesses could attract more competitors.
- If no Internet company endorses its O2O platform, online traffic could be lower than expected.

# Investment Positives

## Evolution of dealership industry is positive for Baoxin

We believe China's dealership industry has entered into a stage of consolidation. Since the new car sales business is no longer as profitable as before, many small dealers with a single business, new car sales, are likely to be phased out of the industry in the next few years. However, supported by multiple businesses (i.e, after-sales business and other expanding services) and relatively strong balance sheet, leading dealers such as Baoxin are able to maintain profitability and continue to consolidate the market or even gain market share from small dealers at relatively lower cost.

## Optimal business composition justifies a higher multiple

After-sales business contributed 52% of Baoxin's gross profit in 2014. With more service centers to be opened in the next few years, especially in the Yangtze Delta area, we believe Baoxin is well positioned to absorb the growing demand for after-sales services in affluent cities and enjoy sustainable profit growth, given its good reputation in this area. As such, we expect after-sales to account for 57% of Baoxin's gross profit in 2017. Moreover, we expect its commission income from expanding services (used cars sales, auto financing and insurance business) to record strong growth in the next few years due to increasing demand.

We believe Baoxin is improving its business composition with more contribution from high-margin business; this business model has been proven successful in developed countries such as the US. Based on Bloomberg consensus estimates, auto dealers around the world (mainly in developed countries such as the US) currently trade at an average 2016e P/E of 16.7x , a ~120% premium over Baoxin's 2016e P/E of 7.7x . We believe the reason that dealers' stocks in developed countries command higher multiples is that a higher proportion (over 50%) of their sales comes from used-car sales, after-sales services and other high-margin business. These businesses have higher margins and are less capital-intensive vs. new-car sales. In terms of free cash flow, these businesses can generate more FCF and hence deserve a higher multiple. As such, we believe Baoxin warrants a higher multiple, given its improving business composition.

## O2O auto platform to drive used car sales growth

Baoxin’s used car trading business has been growing much faster than its new car sales, and used car sales also have higher gross margins, above 10%. Supported by Cox Auto's car trading technology and China Merchants Bank's auto financing service expertise, Baoxin's Autostreets is likely to grow as one of the leading O2O auto platforms. Moreover, over 5,000 auto dealers have cooperated with Autostreets, and Baoxin is targeting over 400 additions each month, which provide it with sufficient used car supply. Baoxin could get 2-3% of the vehicle price as the commission and stronger-than-expected growth of its used car sales could make us more bullish on fast growth of its value-added services.

## Recovering new car sales margins

BMW already confirmed that it will offer Rmb5.1b in subsidies to compensate new car sales of Chinese dealers for 2014. Although inventories for luxury vehicles declined to ordinary levels in 1Q15, intensifying competition among dealers appears to be dragging down dealer margins. BMW has already lowered its 2Q15 sales target by 15%. We expect BMW to reach further agreement with Chinese BMW dealers on lower sales targets in 2H15 and higher subsidies, which could help the margin recovery of dealers’ new car business and improve their working capital status.

Moreover, we expect lower prices for imported BMW vehicles given the depreciation of the Euro since last May.

This might further help the sales volume and market share recovery of dealers' new car business. As the largest BMW dealer in China, Baoxin is well positioned to benefit from BMW's lower sales targets, increasing subsidies and lower vehicle prices in 2015, in our view.

## Earnings Estimate Revisions

**We raised our earnings forecasts by 2.4% for 2015, 2.3% for 2016, and 2.2% for 2017:** We believe the strong growth of Baoxin's used car business, auto financing and auto insurance are set to improve its margin in the next few years. We expect consistent stable growth in its after-sales services, where margin should continue to improve with lower costs of spare parts sourced through parallel imports.

**Exhibit 2:** Major changes in our forecast

| | Before change | | | After change | | | Change (%) | | |
|---|---|---|---|---|---|---|---|---|---|
| Rmb Mn | 2015E | 2016E | 2017E | 2015E | 2016E | 2017E | 2015E | 2016E | 2017E |
| Revenue | 31,091 | 34,652 | 37,506 | 31,091 | 34,652 | 37,506 | - | - | - |
| Gross Profit | 3,001 | 3,387 | 3,760 | 3,001 | 3,387 | 3,760 | - | - | - |
| Operating profit | 1,811 | 2,144 | 2,433 | 1,842 | 2,179 | 2,471 | 1.7 | 1.6 | 1.5 |
| Net Profit | 953 | 1,139 | 1,301 | 977 | 1,165 | 1,330 | 2.4 | 2.3 | 2.2 |
| | | | | | | | Change (ppt) | | |
| GP Margin | 9.7% | 9.8% | 10.0% | 9.7% | 9.8% | 10.0% | - | - | - |
| OP Margin | 5.8% | 6.2% | 6.5% | 5.9% | 6.3% | 6.6% | 0.1 | 0.1 | 0.1 |
| Net Margin | 3.1% | 3.3% | 3.5% | 3.1% | 3.4% | 3.5% | 0.1 | 0.1 | 0.1 |

Source: Morgan Stanley Research (E) estimates

## Relative Valuation and Rating

Based on Bloomberg consensus, Baoxin's 2016e P/E is currently 7.7x, higher than its HK-listed peers (Zhongsheng, Zhengtong and Yongda) at 6-7x. We believe Baoxin deserves a premium to peers, given its higher new-car sales margins and retention rates for after-sales vs. peers.

Our 2016 net profit forecast is 13% lower than consensus. We believe the market is already anticipating lower earnings vs. consensus, as the company has guided down market expectations since May. Our price target of HK$6.50 implies a 2016e P/E of 11.4x (based on our estimate). This is still near the low end of its historical forward P/E range of 10-17x since 2013.

Our new price target of HK$6.50 implies 22% upside from Baoxin's current trading price of HK$5.31. We believe the recent weakness in Baoxin's share price is due to (1) some investors' taking profits, as the stock rose more than 80% from April 1st to end-May, vs. a 10% advance in the Hang Seng Index during the same period; (2) the company reported weak May auto sales numbers in early June, and most investors still treat dealers' results as proxies for new-car sales. However, this is where we differ from the market: We believe that dealers are in the process of transforming their business models, and we expect their stocks to be driven by after-sales, used-car sales and other high-margin services.

As such, we raise our rating on Baoxin from Equal-weight to Overweight. We believe there is limited downside risk to our target price, given unstretched valuation, and more upside potential comes from its improving fundamentals.

We expect Baoxin to face lower pressure on new car prices and margins for the BMW brand given the increasing bargaining power of BMW dealers and higher subsidies, which could help its new car margins to recover from 2015. Also, its brand mix is improving following the opening of new luxury dealerships, while we expect after-sales services to continue strong growth following ramp-up of its new dealerships. Moreover, its strong growth of used car sales, auto financing and auto insurance are set to improve its margin in the long run.

Given Baoxin’s strong position as the No. 1 dealer for both BMW and JLR, we expect it to have higher bargaining power to negotiate with OEMs on sales targets and subsidies. Both of these two OEM brands offered dealers large subsidies to compensate their new car sales in 2014, while we expect this trend to continue especially for BMW, as 68% of its sales in China were contributed by the top 10 dealers in 2014. Moreover, we expect Baoxin’s gross margin for after-sales services to improve because it would outsource part of its spare parts from parallel import with lower costs.

## Valuation methodology

We base our HK$6.5 price target on our DCF valuation model. Our 9.3% WACC is unchanged. It incorporates a 10.0% cost of equity. We use a beta of 1.0, an equity risk premium of 4.5%, a risk-free rate of 3.3%, and a China risk premium of 2.0ppt. We lift our terminal EBIT margin by 20bps in our DCF model to 4.2% from 4% to reflect Baoxin's long-term margin improvement potential through more contribution from high-margin after-sales service and other expanding services. As a result, our price target rises more sharply than our earnings estimates.

**Base Case**

- Stable dealer network expansion, adding 5-6 new stores per year in 2015-17. This is the same as in our last forecasts.
- We forecast Baoxin's commission income as a percentage of sales to increase 10bps p.a. to 1.6% in 2015, 1.6% in 2016 and 1.7% in 2017 (vs. 1.5% in 2015, 1.5% in 2016 and 1.6% in 2017), driven by its strong growth of expanding service.

We derive an EV per share of HK$6.5 per share (up 18% from HK$5.5). This implies 11.4x 2016e P/E, which is at the lower end of its historical forward P/E range since 2013.

**Bull Case**

- Faster dealer network expansion, adding 6-10 new stores p.a. in 2015-16. This is the same as in our last forecasts.
- We assume Baoxin's commission income as percentage of sales to increase 20bps p.a. to 1.7% in 2015, 1.7% in 2016 and 1.8% in 2017 (vs. 1.5% in 2015, 1.5% in 2016 and 1.6% in 2017), driven by its higher-than-expected growth of expanding service.

We derive EV per share of HK$8.0 per share (up 7% from HK$7.5), which implies 14.1x 2016e P/E. This is in the middle of its historical forward P/E range since 2013.

**Bear Case**

- Slowdown in network expansion, without new stores being added in 2015-17 (again unchanged).
- We forecast Baoxin's commission income as percentage of sales to increased by 5bps p.a. to 1.55% in 2015, 1.55% in 2016 and 1.65% in 2017 (vs. 1.5% in 2015, 1.5% in 2016 and 1.6% in 2017), implying lower-than-expected expanding service growth than our base case scenario.

We derive EV per share of HK$5.0 (up 11% from HK$4.5), which implies 8.8x 2016e P/E, ~20% premium over average 7.4x 2016e P/E of HK-listed auto dealer stocks (based on consensus).

**Exhibit 3:** Baoxin: DCF model

| | 2015E | 2016E | 2017E | 2018E | 2019E | 2020E | 2021E | 2022E | 2023E | 2024E | 2025E |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Turnover | 31,091 | 34,652 | 37,506 | 40,132 | 42,540 | 44,667 | 46,453 | 48,312 | 50,244 | 52,254 | 54,344 |
| YoY% | 1% | 11% | 8% | 7% | 6% | 5% | 4% | 4% | 4% | 4% | 4% |
| **Pre-tax profit (EBIT)** | **1,315** | **1,466** | **1,586** | **1,686** | **1,787** | **1,876** | **1,951** | **2,029** | **2,110** | **2,195** | **2,282** |
| EBIT margin | 4% | 4% | 4% | 4% | 4% | 4% | 4% | 4% | 4% | 4% | 4% |
| YoY% | 26% | 11% | 8% | 6% | 6% | 5% | 4% | 4% | 4% | 4% | 4% |
| +Amortization | 50 | 51 | 53 | 53 | 53 | 53 | 53 | 53 | 53 | 53 | 53 |
| +Depreciation | 362 | 446 | 519 | 544 | 564 | 584 | 605 | 626 | 648 | 671 | 695 |
| **EBITDA** | **1,727** | **1,963** | **2,158** | **2,283** | **2,404** | **2,513** | **2,609** | **2,708** | **2,812** | **2,919** | **3,031** |
| -Less Adjusted taxes | (329) | (392) | (448) | (435) | (460) | (482) | (501) | (521) | (541) | (562) | (584) |
| - Capital expenditure | (800) | (800) | (800) | (599) | (564) | (584) | (605) | (626) | (648) | (671) | (695) |
| +/- Changes in working capital | 509 | (620) | (517) | (131) | (120) | (106) | (89) | (93) | (97) | (100) | (105) |
| **Free cash flow** | **1,107** | **151** | **393** | **1,118** | **1,260** | **1,341** | **1,414** | **1,469** | **1,526** | **1,585** | **1,647** |
| **Discount factor** | 1.00 | 1.09 | 1.19 | 1.31 | 1.43 | 1.56 | 1.71 | 1.87 | 2.04 | 2.23 | 2.44 |
| **PV** | 1,107 | 138 | 329 | 856 | 882 | 859 | 829 | 787 | 748 | 711 | 676 |
| **Terminal Value** | | | | | | | | 14,147 | 13,445 | 12,779 | 12,146 |

| | |
|---|---|
| **Corporate NPV** | **17,867** |
| Minorities | (10) |
| Net (debt)/cash | (4,575) |
| **Equity NPV** | **13,282** |
| NOSH | 2,557 |
| NPV Per share | 5.19 |
| Exchange rate | 1.25 |
| **PT (HK$)** | **6.5** |

| **Cost of equity (%)** | | **Cost of debt (%)** | |
|---|---|---|---|
| **Risk free rate (%)** | 3.3 | **Average spread over risk-free rate (%)** | 7.0 |
| **Beta** | 1.0 | **Pre-tax cost of debt (%)** | **10.3** |
| **HK Equity risk premium (%)** | 4.5 | **Average corporate tax rate for company (%)** | 25.0 |
| **China Equity risk premium (%)** | 2.0 | **Post-tax cost of debt (%)** | **7.7** |
| **CAPM unleveraged discount rate** | **10.0** | | |
| **Estimated target gearing (net debt/EV) (%)** | 30.0 | | |
| **WACC (%)** | **9.3** | | |

Source: Morgan Stanley Research estimates

**Exhibit 4:** Financial Summary

| Income Statement | | | | |
|---|---|---|---|---|
| **Rmb Mn** | **2014** | **2015E** | **2016E** | **2017E** |
| **Revenue** | **30,723** | **31,091** | **34,652** | **37,506** |
| COGS | 27,936 | 28,090 | 31,265 | 33,746 |
| **Gross Profit** | **2,788** | **3,001** | **3,387** | **3,760** |
| Other income & gains - net | 455 | 532 | 611 | 680 |
| Selling and distribution cost: | 983 | 1,047 | 1,153 | 1,248 |
| Administrative expenses | 609 | 645 | 666 | 721 |
| **Operating profit** | **1,650** | **1,842** | **2,179** | **2,471** |
| Finance costs | 617 | 578 | 694 | 782 |
| Interest income | 0 | 37 | 66 | 80 |
| Share of profit of JCE | 7 | 15 | 18 | 21 |
| **Profit before income tax** | **1,040** | **1,315** | **1,568** | **1,790** |
| Income tax expense | 326 | 329 | 392 | 448 |
| **Profit after tax** | **714** | **986** | **1,176** | **1,343** |
| Minority Interest | 7 | 10 | 12 | 13 |
| **Net Profit** | **707** | **977** | **1,165** | **1,330** |
| **EPS** | **0.28** | **0.38** | **0.46** | **0.52** |

| | **2014** | **2015E** | **2016E** | **2017E** |
|---|---|---|---|---|
| **Growth (%)** | | | | |
| Revenue | 2.1% | 1.2% | 11.5% | 8.2% |
| Operating Profit | -13.3% | 11.6% | 18.3% | 13.4% |
| Net Profit | -29.8% | 38.2% | 19.3% | 14.2% |
| **Margins (%)** | | | | |
| GP Margin | 9.1% | 9.7% | 9.8% | 10.0% |
| OP Margin | 5.4% | 5.9% | 6.3% | 6.6% |
| Net Margin | 2.3% | 3.1% | 3.4% | 3.5% |
| EBITDA Margin | 6.5% | 7.3% | 7.8% | 8.2% |
| **Return (%)** | | | | |
| ROA | 3.8% | 4.9% | 5.4% | 5.5% |
| ROE | 13.9% | 16.5% | 16.9% | 16.5% |
| **Gearing (%)** | | | | |
| Total Liabilities/Asset | 57.1% | 54.9% | 55.2% | 54.9% |
| Total debt/Equity | 100.4% | 99.8% | 97.1% | 93.4% |
| Net debt/Equity | 57.1% | 33.0% | 27.3% | 18.7% |
| **Efficiency** | | | | |
| Asset Turnover (x) | 1.6 | 1.5 | 1.6 | 1.5 |
| Inventory Days | 39.6 | 38.9 | 36.2 | 36.8 |
| Receivables Days | 5.6 | 4.7 | 4.6 | 4.8 |
| Payable Days | 60.4 | 58.6 | 51.1 | 51.8 |
| Cash Days | (15.2) | (14.9) | (10.2) | (10.2) |
| **Other Ratio** | | | | |
| Total Debt/EBITDA | 2.6 | 2.6 | 2.5 | 2.5 |
| EBITDA / Financial Cost | 3.1 | 3.9 | 3.9 | 3.9 |
| Current Ratio | 1.2 | 1.3 | 1.3 | 1.3 |
| Quick Ratio | 0.2 | 0.4 | 0.4 | 0.5 |

| Balance Sheet | | | | |
|---|---|---|---|---|
| **Rmb Mn** | **2014** | **2015E** | **2016E** | **2017E** |
| PPE | 3,789 | 4,092 | 4,311 | 4,457 |
| Intangible assets | 1,459 | 1,538 | 1,615 | 1,691 |
| Prepayments | 498 | 498 | 498 | 498 |
| Interest in a jointly-controlled entity | 45 | 60 | 78 | 100 |
| Long-term deferred assets | 74 | 74 | 74 | 74 |
| **Non-current assets Subtotal** | **5,995** | **6,392** | **6,707** | **6,950** |
| Inventories | 3,057 | 2,937 | 3,271 | 3,540 |
| Trade receivables | 393 | 409 | 462 | 521 |
| Prepayment &other receivable | 5,504 | 4,741 | 5,281 | 5,712 |
| Cash and cash equivalents | 2,203 | 3,954 | 4,821 | 6,004 |
| Other current assets | 2,625 | 2,259 | 2,508 | 2,703 |
| **Current assets Subtotal** | **13,782** | **14,299** | **16,344** | **18,480** |
| Short-term bank loans | | | | |
| Trade and bills payables | 4,878 | 4,141 | 4,608 | 4,974 |
| Other payables and accruals | 780 | 792 | 882 | 952 |
| Short-term bank loans | 5,107 | 5,907 | 6,707 | 7,507 |
| Other current liabilitites | 522 | 522 | 522 | 522 |
| **Current liabilities Subtotal** | **11,287** | **11,363** | **12,720** | **13,956** |
| **Minority interests** | **60** | **70** | **81** | **94** |
| Share Capital | 21 | 21 | 21 | 21 |
| Reserves | 4,967 | 4,967 | 4,967 | 4,967 |
| Retained Profit | 101 | 931 | 1,921 | 3,052 |
| **Shareholders' Equity** | **5,089** | **5,919** | **6,909** | **8,039** |

| Cash Flow Statement | | | | |
|---|---|---|---|---|
| **Rmb Mn** | **2014** | **2015E** | **2016E** | **2017E** |
| Profit before tax | 1,040 | 1,315 | 1,568 | 1,790 |
| Depreciation of PPE | 285 | 362 | 446 | 519 |
| Amortisation | 47 | 50 | 51 | 53 |
| Changes in working capital | (340) | 509 | (620) | (517) |
| Others | 446 | 204 | 225 | 240 |
| **Cash inflow fr. oper. activities** | **1,478** | **2,439** | **1,670** | **2,085** |
| **Cash used fr. investing act.** | **(1,331)** | **(763)** | **(734)** | **(720)** |
| **Cash (outflow)/inflow fr. fin.** | **34** | **75** | **(69)** | **(181)** |
| **Cash & cash equiv. at EOP** | **2,205** | **3,956** | **4,823** | **6,006** |

Source: Company data, Morgan Stanley Research estimates

# Disclosure Section

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(as of May 31, 2015)

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| STOCK RATING CATEGORY | COVERAGE UNIVERSE | | INVESTMENT BANKING CLIENTS (IBC) | | |
|---|---|---|---|---|---|
| | COUNT | % OF TOTAL | COUNT | % OF TOTAL IBC | % OF RATING CATEGORY |
| **Overweight/Buy** | **1173** | **35%** | **326** | **43%** | **28%** |
| **Equal-weight/Hold** | **1460** | **44%** | **342** | **45%** | **23%** |
| **Not-Rated/Hold** | **100** | **3%** | **10** | **1%** | **10%** |
| **Underweight/Sell** | **613** | **18%** | **79** | **10%** | **13%** |
| **TOTAL** | **3,346** | | **757** | | |

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months.

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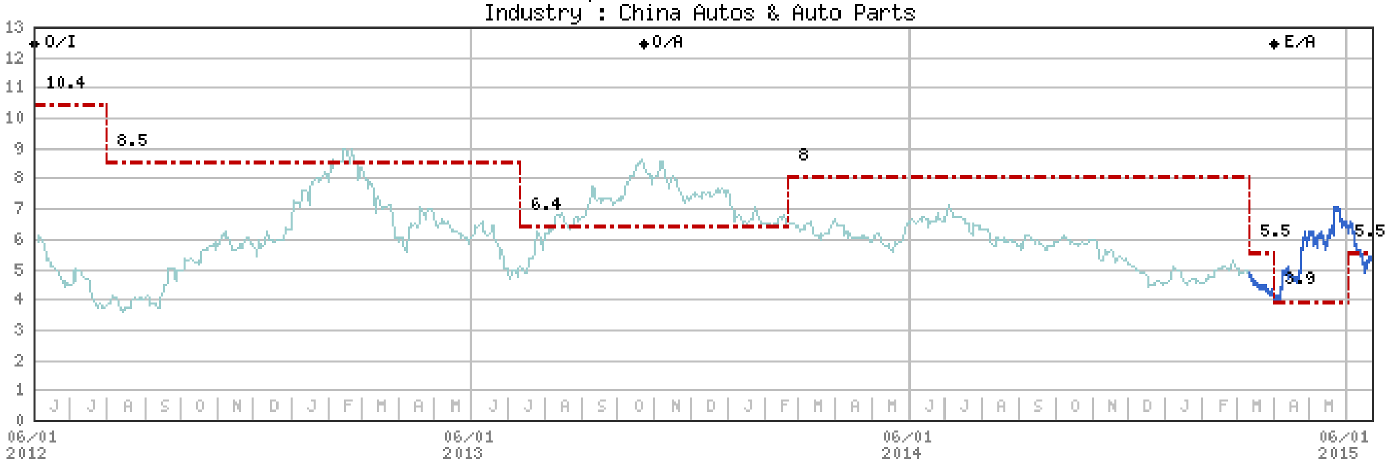
## Stock Price, Price Target and Rating History (See Rating Definitions)

Baoxin Auto Group (1293.HK) - As of 6/21/15 in HKD
Industry : China Autos & Auto Parts




Stock Rating History: 6/1/12 : O/I; 10/22/13 : O/A; 4/1/15 : E/A

Price Target History: 1/18/12 : 10.4; 8/1/12 : 8.5; 7/12/13 : 6.4; 2/20/14 : 8; 3/12/15 : 5.5; 4/1/15 : 3.9; 6/3/15 : 5.5

Source: Morgan Stanley Research    Date Format : MM/DD/YY    Price Target --    No Price Target Assigned (NA)
Stock Price (Not Covered by Current Analyst)    Stock Price (Covered by Current Analyst)
Stock and Industry Ratings (abbreviations below) appear as ◆ Stock Rating/Industry View
Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) No Rating Available (NA)
Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

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Effective January 13, 2014, the industry view benchmarks for Morgan Stanley Asia Pacific are as follows: relevant MSCI country index or MSCI sub-regional index or MSCI AC Asia Pacific ex Japan Index.

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**INDUSTRY COVERAGE: China Autos & Auto Parts**

| COMPANY (TICKER) | RATING (AS OF) | PRICE* (06/19/2015) |
|---|---|---|
| **Yeung, Jack** | | |
| BAIC Motor (1958.HK) | O (01/25/2015) | HK$9.17 |
| Baoxin Auto Group (1293.HK) | O (06/22/2015) | HK$5.31 |
| Brilliance China Automotive (1114.HK) | O (10/22/2013) | HK$10.92 |
| BYD Company Limited (002594.SZ) | E (06/04/2015) | Rmb61.90 |
| BYD Company Limited (1211.HK) | E (06/04/2015) | HK$47.80 |
| CAR Inc. (0699.HK) | E (10/23/2014) | HK$16.60 |
| China Rundong Auto Group Ltd (1365.HK) | E (09/22/2014) | HK$4.64 |
| China Yongda Automobiles Services (3669.HK) | E (07/12/2013) | HK$5.17 |
| China Zhengtong Auto Services (1728.HK) | E (05/08/2013) | HK$5.13 |
| Chongqing Changan Automobile (200625.SZ) | O (11/28/2013) | HK$17.60 |
| Chongqing Changan Automobile (000625.SZ) | O (12/30/2014) | Rmb19.46 |
| Dah Chong Hong Holdings (1828.HK) | U (06/13/2014) | HK$4.32 |
| Dongfeng Motor Group (0489.HK) | O (05/30/2014) | HK$10.78 |
| Geely Automobile Holdings (0175.HK) | E (09/27/2014) | HK$3.74 |
| Great Wall Motor Company Limited (2333.HK) | E (06/05/2015) | HK$38.00 |
| Great Wall Motor Company Limited (601633.SS) | E (06/05/2015) | Rmb42.76 |
| Guangzhou Automobile Group (2238.HK) | U (07/17/2014) | HK$7.19 |
| Guangzhou Automobile Group (601238.SS) | U (10/29/2014) | Rmb17.41 |
| Minth Group Limited (0425.HK) | O (03/20/2014) | HK$17.12 |
| SAIC Motor Corp. Ltd. (600104.SS) | E (05/15/2015) | Rmb22.49 |
| Zhongsheng Group Holdings (0881.HK) | E (11/04/2014) | HK$5.51 |

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* Historical prices are not split adjusted.