Deutsche Bank
Markets Research

Rating
Buy

Asia
China

Automobiles & Components

Company
BAIC Motor

Reuters	Bloomberg	Exchange	Ticker
1958.HK	1958 HK	HSI	1958

Date
14 February 2018

Results

Price at 12 Feb 2018 (HKD)	10.84
Price target - 12mth (HKD)	11.50
52-week range (HKD)	12.50 - 6.64
HANG SENG INDEX	29,460

Worst-than-expected FY17 profit, but unlikely to alter the recovery path

FY17E earnings to fall approximately 65% YoY

On 13 February, BAIC Motor announced the company expects to record about 65% YoY decline in its FY17 net profit (i.e., to about RMB2.2bn). BAIC Motor attributes the significant earnings plunge to 1) competition in the China auto sector and 2) weak demand of Korean brand passenger vehicles and BAIC's local brand. Consequently, profitability of BAIC’s Hyundai JV and the local brand was badly affected. More details of BAIC Motor’s results will be released by the end of March.

Deutsche Bank view – local brand house cleaning possible; our optimism on FY18E remain

In our FY17 forecast, we estimate that BAIC will register 33% YoY net profit decline to RMB4.3bn, with consensus expectations lower than ours. Based on the company announcement, its FY17 net profit will only account for 52% of our forecast. As such, we think consensus estimates are subject to downside risk. Since Beijing Benz has already reported a 62.2% YoY jump in FY17 after-tax profit (in EUR terms) while Beijing Hyundai's FY17 is marginally profitable, we reckon that BAIC Motor's FY17 earnings downside should come from a significant 2H17E HoH loss widening at the local brand operation despite improved sales volume HoH. We indeed think it is possible that BAIC Motor may have made some one-off write-offs in that period.

Notwithstanding an overall disappointing FY17, we see solid trends in various entities of BAIC Motor. To elaborate, Beijing Benz's sales momentum stayed strong in January with 31.1% sales volume YoY growth. While Beijing Hyundai's sales were still down YoY, demand for the new generation ix35 SUV has been encouraging while more new SUV models (e.g. Kona) is upcoming. Although we still do not expect the local brand sales to drastically improve, a possibly lighter asset base could still help on loss narrowing, in our view.

All in all, we maintain our Buy rating on BAIC Motor as we believe the Benz JV’s robust net profit is sustainable, while the depressed valuation being applied to the Hyundai JV is excessive. This is because we do think the Hyundai JV’s profitability can be rebounded meaningfully in FY18E on sales improvement. Our SOTP target price implies undemanding FY18E of 10.3x. Key downside risks are 1) weak reception for its new models and 2) loss-widening at the local brand.

Valuation & Risks

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Price/price relative

Performance (%)	1m	3m	12m
Absolute	-7.5	19.4	30.6
HANG SENG INDEX	-6.2	1.2	25.0

Source: Deutsche Bank

Key indicators (FY1)

ROE (%)	10.4
Net debt/equity (%)	-13.0
Book value/share (CNY)	5.56
Price/book (x)	1.6
Net interest cover (x)	27.0
Operating profit margin (%)	13.1

Source: Deutsche Bank

Appendix 1

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*Other information available upon request

Disclosure checklist

Company	Ticker	Recent price*	Disclosure
BAIC Motor	1958.HK	10.84 (HKD) 12 Feb 2018	13

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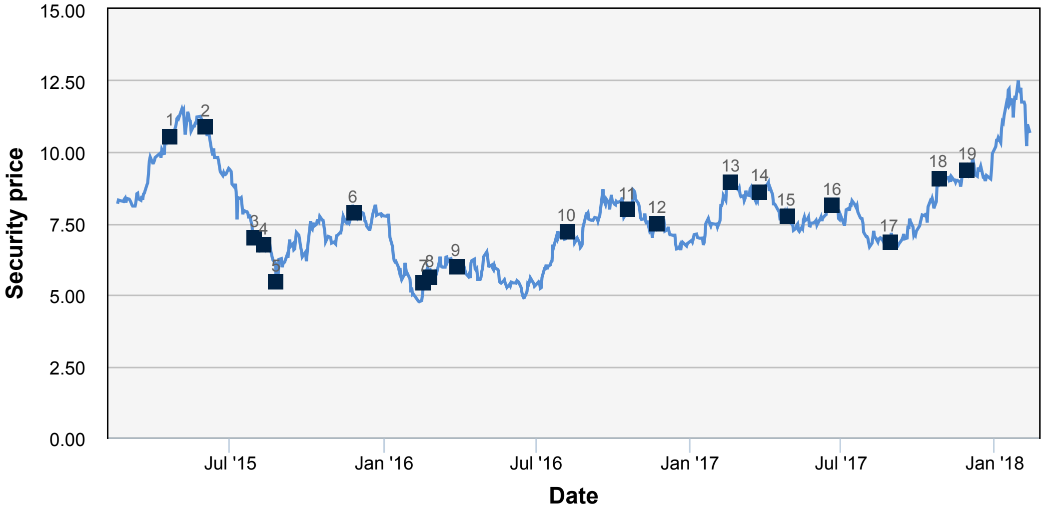
Historical recommendations and target price. BAIC Motor (1958.HK)

(as of 02/12/2018)



Current Recommendations

Buy
Hold
Sell
Not Rated
Suspended Rating

** Analyst is no longer at Deutsche Bank

1.	04/21/2015	Buy, Target Price Change HKD 12,30 Vincent Ha, CFA	11.	10/20/2016	Buy, Target Price Change HKD 9,80 Vincent Ha, CFA
2.	06/02/2015	Buy, Target Price Change HKD 13,40 Vincent Ha, CFA	12.	11/24/2016	Buy, Target Price Change HKD 9,40 Vincent Ha, CFA
3.	07/31/2015	Buy, Target Price Change HKD 10,10 Vincent Ha, CFA	13.	02/20/2017	Buy, Target Price Change HKD 11,80 Vincent Ha, CFA
4.	08/11/2015	Buy, Target Price Change HKD 9,30 Vincent Ha, CFA	14.	03/27/2017	Buy, Target Price Change HKD 12,20 Vincent Ha, CFA
5.	08/26/2015	Buy, Target Price Change HKD 8,90 Vincent Ha, CFA	15.	04/28/2017	Buy, Target Price Change HKD 11,00 Vincent Ha, CFA
6.	11/27/2015	Buy, Target Price Change HKD 9,50 Vincent Ha, CFA	16.	06/21/2017	Buy, Target Price Change HKD 10,10 Vincent Ha, CFA
7.	02/18/2016	Buy, Target Price Change HKD 7,40 Vincent Ha, CFA	17.	08/29/2017	Buy, Target Price Change HKD 9,20 Vincent Ha, CFA
8.	02/26/2016	Buy, Target Price Change HKD 7,10 Vincent Ha, CFA	18.	10/27/2017	Buy, Target Price Change HKD 10,40 Vincent Ha, CFA
9.	03/29/2016	Buy, Target Price Change HKD 7,30 Vincent Ha, CFA	19.	11/30/2017	Buy, Target Price Change HKD 11,50 Vincent Ha, CFA
10.	08/08/2016	Buy, Target Price Change HKD 8,60 Vincent Ha, CFA			

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Sell: Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock.
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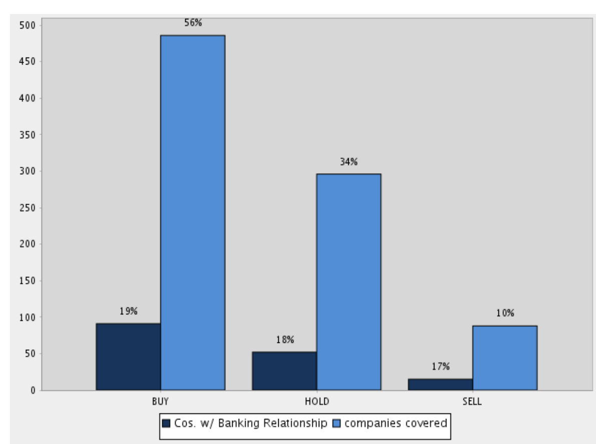

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