



## Flash Note: Brilliance China (01114 HK)

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# BMW to Raise Stake in Brilliance BMW JV to 75%

宝马将华晨宝马合资公司股权提升至75%

- BMW AG (BMW GR) to raise stake in Brilliance BMW JV to 75%, according to a statement from BMW AG.** The consideration for the additional 25% stake holding is expected to be EUR 3.6 billion (equivalent to approximately RMB 28.8 billion). The price is approximately 7.4x forward PER, which is fair in our view (see Table-1). The deal is expected to be completed in 2022, the first year that the shareholding limits will be fully relaxed. Further, the terms of the joint venture are to be extended to 2040 from 2028.
- The transaction will have heavy financial impact on Brilliance China (01114 HK or the "Company").** The Company's performance relied heavily on the results of the JV, BMW Brilliance. With the Company's current 50% stake in BMW Brilliance, their share of profit from the JV represented more than 100% of the Company's overall results in the past, as the Company's self-owned brands have been loss making, and is expected to remain so. Therefore, if Brilliance China's stake in the JV is reduced from 50% to 25%, we expect that their share of the JV results will reduce approximately 50%. For this transaction, the Company could generate a one-off disposal gain of about RMB 16.7 million (See Table-2 and Table-3).
- Brilliance China's long-term value impaired.** The sale of the additional stake holding to BMW AG was widely expected since July and was confirmed during the 1H18 results briefing. We believe that YTD stock price performance has largely reflected the negative impact of the expected transaction, which fell 48.0% YTD. Despite still having a few years before the new shareholder structure becomes effective, one thing is sure is that the long-term value of the listed company will be significantly reduced. The management of the Company is aiming to achieve breakeven for self-owned business within three years; however, we believe that this is still hard to predict with new model collaboration with Renault yet to be confirmed. So, we believe that even with the new business venture with Renault, the Company will struggle to compensate for the loss resulting from the reduction in stake holding in BMW Brilliance JV. The Company halted trading this morning (11 Oct. 2018) pending the publication of an announcement on this major transaction. The Company's peers were all significantly down this morning, especially BAIC Motor (01958 HK) due to its JV with Mercedes-Benz. We believe that the market should be expecting more deals to follow after the announcement of this transaction. We will update our Company Report upon any announcement of the details of this transaction.
- 根据宝马集团 (BMW GR) 的新闻声明, 宝马集团将会提高与华晨宝马合资公司的股权至 75%。** 额外 25% 股权的代价预计为 36 亿欧元 (相当于约人民币 288 亿元)。价格约为 7.4 倍预测市盈率, 我们认为这是公平的 (见表-1)。该交易预计将在在外股比例完全开放的第一年, 即 2022 年完成。此外, 合资公司的期限将从 2028 年延长至 2040 年。
- 该交易将对华晨汽车 (01114 HK 或“公司”) 产生重大财务影响。** 公司业绩极度依赖于合资公司华晨宝马的业绩。公司持有华晨宝马 50% 股权, 合资公司的利润份额占公司过去业绩的 100% 以上, 因为自主品牌连年亏损, 并且预计将继续亏损。因此, 如果华晨汽车在合资公司的股权从 50% 降至 25%, 我们预计业绩的份额将减少约 50%。至于本次交易, 预计公司将可获得一次性出售收益约人民币 1,670 万元 (见表-2 和 3)。
- 华晨汽车长期价值受损。** 自 7 月以来, 市场普遍也预计公司将向宝马集团出售股权, 并在上半年的业绩简报中得到确认。我们认为年初至今的股价表现在很大程度上也反映了股权交易的负面影响, 其股价年初至今下跌 48.0%。尽管在新股东结构生效前还有几年时间, 但有一点可以肯定的是, 上市公司的长期价值将被大幅降低。公司管理层指导三年内实现自营业务的盈亏平衡; 然而, 我们认为仍然难以预测, 因与雷诺合作的新车型尚未确认。因此我们相信即使与雷诺进行新业务合作, 也很难弥补华晨宝马合资公司的权益损失。公司于今早 (2018 年 10 月 11 日) 暂停交易, 因等待本次重大交易公告发布。公司的同业在今天上午大幅下跌, 尤其是与梅赛德斯奔驰组成合资公司的北汽 (01958 HK)。我们认为市场预计此交易公布后将会有更多相关股权交易。我们会在发布有关此交易的详细信息后更新公司报告。

**Table-1: Valuation Comparison**

Valuation multiples	Transaction	BMW AG	DAI AG	1114 HK
Trailing PBR (x)	2.4	0.9	0.9	1.6
2017 PER (x)	11.0	5.7	6.1	8.5
2018 PER (x)	7.4	7.1	6.3	7.1

Source: the Company, Bloomberg, Guotai Junan International.

Note: Multiples based on 10 Oct. 2018 closing.

**Table-2: Brilliance China Key Financial Summary**

Financial (RMB mn)	1H18A	2017A	2018F	2019F	2020F
<b>Profit and loss</b>					
Revenue	2,287	5,305	4,094	3,221	2,568
Gross profit	157	186	143	113	90
Share of result of BMW Brilliance	3,677	5,233	7,818	9,411	11,081
Profit attributable to equity holders	3,566	4,376	7,447	8,715	10,273
<b>Balance sheet</b>					
Net asset of the Company	30,004	26,700	30,922	36,081	42,099
Net asset of BMW Brilliance (100%)	48,344	43,188	56,791	73,178	92,480

Source: the Company, Guotai Junan International.

**Table-3: Financial Impact based on 2018 to 2020 Forecasts**

Changes in financials	2018F	2019F	2020F
Share of result of BMW Brilliance (RMB mn)	(3,908.76)	(4,705.70)	(5,540.27)
%	50%	50%	50%
Profit attributable to equity holders (RMB mn)	(3,908.76)	(4,705.70)	(5,540.27)
%	52%	54%	54%
<b>One-off gain on disposal</b>			
	<b>RMB mn</b>		
Consideration	28,776		
Net asset purchased	12,086		
<b>Gains / (losses)</b>	<b>16,690</b>		

Source: the Company, Guotai Junan International.

Note: The gain represents one-off disposal gain on the 25% stake on Brilliance BMW JV, before any marked to market adjustment on assets and liabilities.

**Company Rating Definition**

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating		Definition
Buy	买入	Relative Performance > 15%; or the fundamental outlook of the company or sector is favorable.
Accumulate	收集	Relative Performance is 5% to 15%; or the fundamental outlook of the company or sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the company or sector is neutral.
Reduce	减持	Relative Performance is -5% to -15%; or the fundamental outlook of the company or sector is unfavorable.
Sell	卖出	Relative Performance < -15%; or the fundamental outlook of the company or sector is unfavorable.

**Sector Rating Definition**

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating		Definition
Outperform	跑赢大市	Relative Performance > 5%; or the fundamental outlook of the sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the sector is neutral.
Underperform	跑输大市	Relative Performance < -5%; Or the fundamental outlook of the sector is unfavorable.

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