



China Auto Sector

4Q17 to see strong NEV shipment, albeit a tepid ICE market

	Ticker	Rec	Mkt cap		Price	PT	Up/ dn (%)	PER		PBR		EV/EBITDA	
			(US\$m)	Ccy				2017E	2018E	2017E	2018E	2017E	2018E
BYD	1211 HK	Buy	26,921	HKD	71.3	82	15	39.9	26.6	3.1	2.8	16.5	13.5
GAC	2238 HK	Buy	23,816	HKD	20.9	24.7	18	14.9	12.3	2.1	1.8	21.6	17.2
Brilliance Auto	1114 HK	Buy	14,225	HKD	22	24.8	12.7	18.5	12.2	3.4	2.7		

Source: Bloomberg, CSCI estimates

- We expect to see strong NEV PV shipments in 4Q17, as OEMs may capture the time window to make a push before 2018 which may make it more difficult for some OEMs to launch new models given the stricter requirement.
- Sedan shipments slowdown in Oct-17 suggested ICE vehicles' weak demand may continue in the mass market given the increasing dealers' inventory in Oct-17 after emerging discrepancy between retail and wholesale growth in Sep-17.
- Margins of PV OEMs may extend decline seen during 1Q-3Q17 into 4Q17, in view of the buoyed commodity prices and our expectation of tepid sales growth.
- In stock picks, we continue to prefer NEV plays including BYD (1211 HK) and ICE car plays including GEELY (175 HK) and GAC (2238 HK).

New policy announced in Nov-17 to spur a rush of NEV PV sales ahead of year-end. In view of the solid sales ramp-up in 10M17 and mitigating NEV policy impacts, we expect total NEV PV sales to exceed 500k units in FY17E and become the primary NEV sales growth driver in 4Q17, especially after the announcement of the new scheme in Nov-17 to restrict OEMs from launching new models in FY18E if they have failed to meet the gas consumption requirement for the FY16/17 period. To avoid additional higher expenses related to the non-conformity to the requirement, we expect to see strong NEV PV shipments in 4Q17, as OEMs may capture the time window to make a push before 2018 which may make it more difficult for some OEMs to launch new models given the stricter requirement.

ICE shipment growth rapidly slowdown in Oct-17 due to weak PV sedan sales growth. Although the sales growth of ICE vehicles has picked up significantly to 5.8% YoY in 3Q17 from merely 1.1% YoY in 2Q17, the shipment growth during the traditional peak season has slowed down rapidly due to weak PV sedan sales. Thus, we anticipate ICE shipment growth would remain meagre in 4Q17, given the weak demand in the mass market signaled by the increasing dealers' inventory in Oct-17 following the emerging discrepancy between retail and wholesale growth amid the peak season. Meanwhile, we believe PV SUVs with displacement below 1.6L will remain the major catalyst in driving sales growth in 4Q17 in anticipation of the purchase tax will roll back to 10% in FY18E.

PV OEMs posted third consecutive quarter margin declines, while stable margins for CV OEMs. Given the tepid ICE sales and increasing commodity prices during 3Q17, we expect PV OEMs' average margins to continue to decline in 4Q17, while we believe CV OEMs' margins will tend to be more stable than that of the PV players due to the solid demand from domestic infrastructure construction year-to-date. NEV suppliers have also seen their margins decline in the first three quarters due to ASP reduction after the subsidy cuts; however, we expect to see improvement in their revenue and earnings growth in 4Q17 on assumption of improvement in NEV shipment growth going forward.

TIAN Yang
(CE No.: BGL791)

Email: tianyang@csci.hk

Telephone: +852 3465 5775

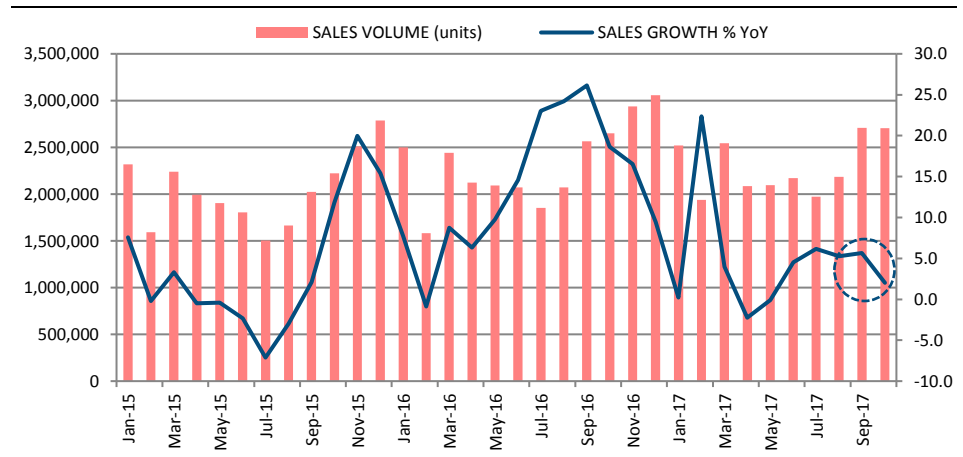
Tepid ICE sales in Oct-17 due to PV sedan sales slowdown

In 9M17, we saw the pace of increase in ICE sales growth has remained relatively stable, picking up gradually to 5.8% YoY in 3Q17 from merely 1.1% YoY in 2Q17. However, dragged by a slowdown in PV sales growth from 3.3% YoY in Sep-17 to only 0.4% YoY in Oct-17, total ICE sales growth subsequently slowed down to 2% in Oct-17. Meanwhile, CV sales growth has also declined to 14.8% YoY in Oct-17 from 23.9% YoY in Sep-17.

According to CAAM, the tepid sales growth of ICE PV in Oct-17 was primarily attributable to the slowdown in sedan sales growth from 3.7% YoY in Sep-17 to -5.4% YoY in Oct-17. On the contrary, SUVs and MPVs saw a pickup in shipment growth to 13.9% YoY and -18% YoY in Oct-17 from 10.5% YoY and -25.1% YoY in Sep-17 respectively.

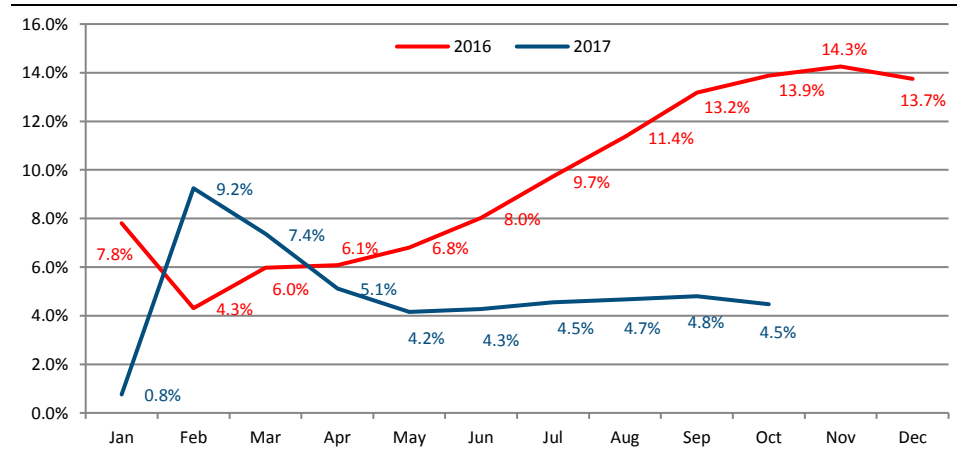
Meanwhile, we also noticed that vehicles with displacement above 1.6L have posted continuous sales decline during 3Q17 while those vehicles with displacement below 1.6L have seen shipment growth continued to pick up, in anticipation of the purchase tax for 1.6L below cars will roll back to 10% in FY18E. We anticipate the sales growth momentum of vehicles below 1.6L displacement to continue through 4Q17, in particularly SUVs with small engines are likely to continue to lend support to ICE shipment growth to remain on a moderate uptrend in the mid-term, in our view.

Figure 1: ICE shipment growth slowdown in Oct-17

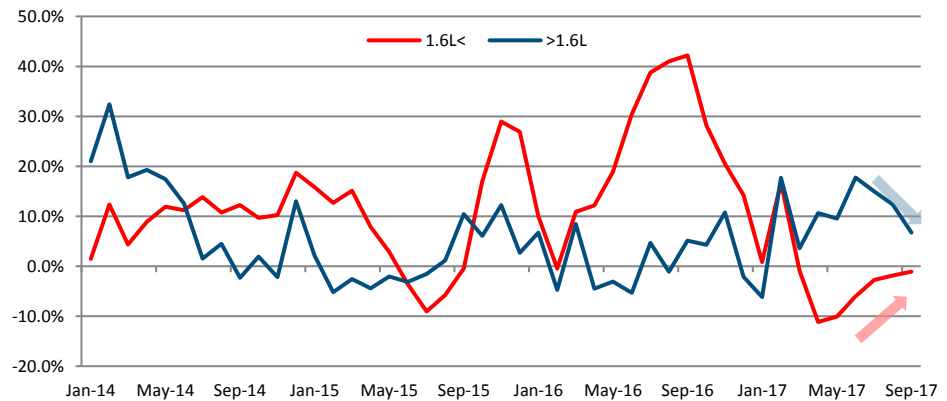


Source: CAAM, CSCI Research

Figure 2: ICE sales growth slightly decline in peak season

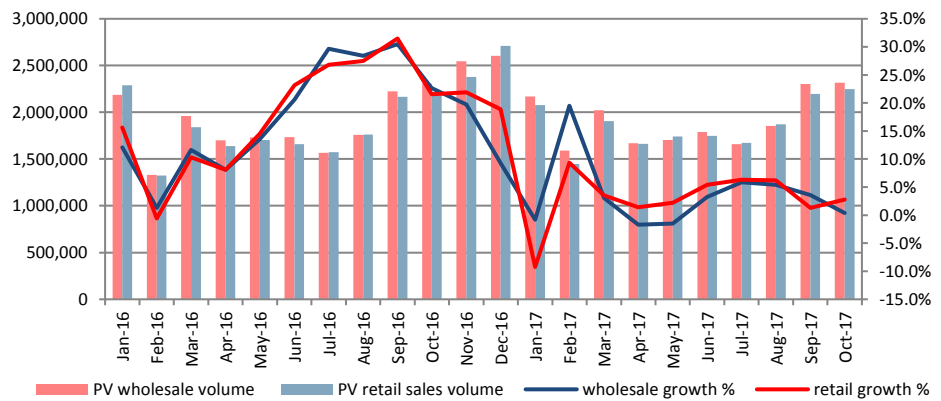


Source: CAAM, CSCI Research

Figure 3: Sales growth of vehicles below 1.6L displacement continue rising


Source: CAAM, CSCI Research

The weak ICE demand has also been explained by the lower retail sales growth and higher inventory level on the dealer side during Sep-Oct. In order to prepare for the sales peak season during 3Q-4Q, OEMs have picked up their wholesales growth in Sep-17 which had attributed to the rising discrepancy between retail growth and wholesale growth. However, according to CPCA data, the coefficient of dealers' inventory has increased from 1.21 in Sep-17 to 1.33 in Oct-17, which suggested insufficient demand in the mass market amid the peak season. In our view, if terminal demand continues to weaken in Nov-Dec or if the dealers' inventory levels keep going up, the OEMs may choose to decline their shipments growth in order to maintain dealers' inventory at a normal level.

Figure 4: Increasing inventory after wholesales growth rise points to weak demand


Source: CPCA, CSCI Research

Likely NEV PV rush shipment in Nov-Dec to drive total NEV sales

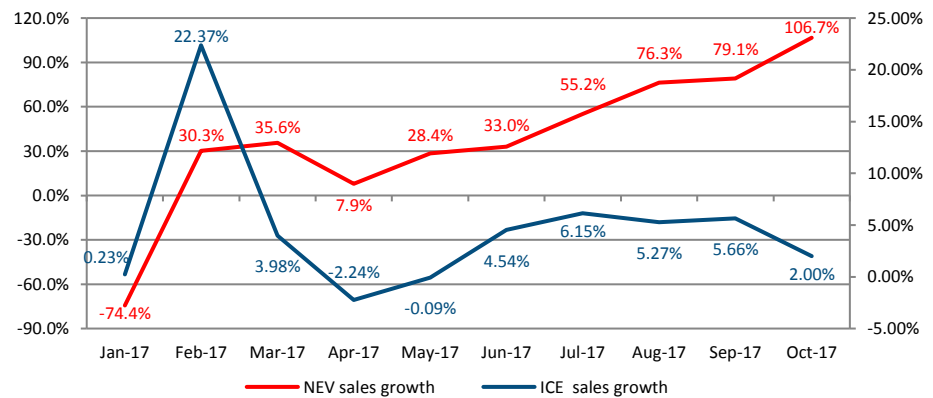
NEV sales growth surprisingly rose to 107% YoY in Oct-17, primarily due to a 95% YoY growth in BEV PV sales and 98% YoY growth in BEV CV sales. Total NEV PV shipments amounted to 390k units in 10M17 as compared to 330k units for the entire 2016; thus, it will not be a surprise that NEV PV sales in FY17E will outperform total NEV sales of 501k units in FY16, in favour of total sales volume to exceed the 700k units target in FY17E, in our view.

On the other hand, 10M17 NEV CV sales amounted to 95.9k units compared to 187k units in FY16; thus, we believe NEV PVs will continue to underpin NEV segment growth as the primary driver in 4Q17, especially after the launch of the new schemes in early Nov-17 to restrict OEMs from launching new models in FY18E if they have failed to meet the gas consumption requirements for the 2016-2017 period. As such, we expect to see strong NEV PV shipments during Nov-Dec, as OEMs may capture the time window to make a push before 2018 which may make it more difficult for some OEMs to launch new models given the stricter gas consumption requirement, in our view.

Figure 5: NEV sales growth continue on the back of strong PV shipments

CAAM Sales	total NEV	NEV YoY	- NEV PV	PV YoY	BEV	BEV YoY	PHEV	PHEV YoY	- NEV CV	CV YoY	BEV	BEV YoY	PHEV	PHEV YoY
2017-1	5682	-74.4%	4608	-66.2%	3908	-49.3%	700	-88.2%	1074	-87.4%	1070	-86.2%	4	-99.5%
2017-2	17596	30.3%	16667	67.3%	13346	114.0%	3321	-10.9%	929	-73.8%	573	-81.4%	356	-24.1%
2017-3	31120	35.6%	28490	81.0%	23673	120.7%	4817	-3.9%	2630	-63.6%	1669	-76.0%	961	268.2%
2017-4	34361	7.9%	30478	45.2%	25413	79.5%	5065	-25.8%	3883	-64.2%	3157	-67.7%	726	-33.0%
2017-5	45300	28.4%	38853	49.4%	32438	88.9%	6415	-27.3%	6447	-30.6%	6092	-29.8%	335	-41.9%
2017-6	59000	33.0%	43000	26.1%	33000	33.3%	10000	5.9%	16000	55.9%	15000	64.0%	1000	0.9%
2017-7	56000	55.2%	44000	49.5%	33000	63.7%	11000	17.7%	12000	79.4%	11000	93.5%	1000	5.0%
2017-8	68000	76.3%	55000	81.1%	44000	97.4%	11000	36.9%	13000	58.1%	12000	88.8%	1000	-47.4%
2017-9	78000	79.1%	61000	96.8%	48000	100.0%	13000	85.7%	17000	30.8%	16000	45.5%	1000	0.0%
2017-10	91000	106.7%	68000	111.5%	55000	94.8%	13000	231.0%	23000	93.7%	22000	98.1%	1000	43.8%

Source: CAAM, CSCI Research

Figure 6: ICE sales slowdown vs. NEV sales recovery


Source: CAAM, CSCI Research

Likely weak margin continue for PV OEMs while improving shipments ahead for NEV suppliers in 4Q17

Amid the tepid ICE sales during 10M17, PV OEMs have generally experienced a continuous slowdown in profit growth, with the average GPM of PV OEMs also having declined from 17.9% in 1Q17 to 16.4% as of the end of 3Q17. We believe margin concerns will likely remain an overhang in the ICE PV segment in 4Q17 due to tepid sales growth during the peak season and rising commodity prices weighing on the OEMs' margins, in our view.

Meanwhile, the CV segment has maintained stable growth in 9M17 relative to the PV segment; for example, trucks OEMs have maintained a stable average GPM of around 14% during the first three quarters on the back of 35%-45% revenue growth driven by strong demand from the infrastructure construction industry. Also, the CV bus OEM segment has posted positive average revenue growth for the first time in 3Q17 since 1Q17, which suggested a gradual recovery of the CV segment given the improvement in the sector's average GPM from 15.2% in 1Q17 to 16.6% in 3Q17.

Regarding the NEV segment, the new subsidy policy implemented in FY17 has generally weighed on the growth of the NEV sector in 9M17, especially for the upstream suppliers which saw ultra-high growth in terms of unit sales and margins in FY16, though such adverse effects have gradually mitigated since 2Q17 after accumulated sales growth turned around with growth having ramped up rapidly in the following months. Looking forward, we anticipate to see continuous recovery in NEV shipments and profitability on the back of tightening requirements on gas consumption and NEV credits as well as unchanged cash subsidy in FY18E compared to FY17E.

In view that NEV cash subsidy reduction will likely continue through 2020, OEMs, parts suppliers and terminal consumers will bear the brunt of rising costs, in our view. And as for the upstream suppliers, although their revenues are widely expected to see substantial improvement on market share gain, their ASPs are likely to remain on a downward trend leading to margins to decline to a more normalised level in 2020.

Figure 7: Quarterly results for OEMs

OEM: PV		2016				1Q17			2Q17			3Q17		
		Revenue	Net Profit	Gross Margin	Net Margin	Revenue	Net Profit	Gross Margin 1Q17	Revenue	Net Profit	Gross Margin 1H17	Revenue	Net Profit	Gross Margin 9M17
海马汽车	000572.SZ	14,239	230	13.6%	1.6%	3,379	50	14.2%	1,930	-26	13.5%	1,906	-87	12.3%
长安汽车	000625.SZ	78,542	10,285	17.9%	13.1%	17,667	2,401	15.2%	15,888	2,219	14.2%	17,876	1,190	11.8%
一汽轿车	000800.SZ	22,710	(954)	19.7%	-4.2%	7,073	162	25.5%	6,328	109	25.3%	6,425	21	24.2%
比亚迪	002594.SZ	103,470	5,052	20.4%	4.9%	21,046	606	21.0%	23,991	1,117	20.3%	28,895	1,069	19.9%
上汽集团	600104.SH	756,416	32,009	12.9%	4.2%	196,282	8,261	13.2%	200,124	7,697	12.8%	211,643	8,680	13.2%
江淮汽车	600418.SH	52,529	1,162	9.6%	2.2%	13,686	274	10.7%	11,652	71	10.3%	10,243	-126	10.7%
金杯汽车	600609.SH	4,802	(208)	14.6%	-4.3%	1,249	-53	15.6%	1,331	-284	15.8%	1,610	-164	14.7%
广汽集团	601238.SH	49,418	6,288	20.0%	12.7%	16,885	3,829	23.8%	17,881	2,354	22.6%	16,866	2,780	23.2%
长城汽车	601633.SH	98,616	10,551	24.5%	10.7%	23,319	1,955	21.7%	17,937	465	19.4%	22,173	460	18.1%
Average		131,194	7,157	17.0%	4.5%	33,398	1,943	17.9%	33,007	1,525	17.1%	35,293	1,536	16.4%
YoY change %						7.5%	11.3%		14.5%	-13.6%		12.2%	-13.4%	
OEM: CV Trucks														
江铃汽车	000550.SZ	26,634	1,318	22.6%	4.9%	8,156	229	20.7%	7,511	324	21.0%	6,769	91	20.8%
中国重汽	000951.SZ	21,119	418	10.5%	2.0%	7,137	168	10.7%	11,174	311	10.6%	9,952	233	10.4%
东风汽车	600006.SH	16,018	219	14.0%	1.4%	3,836	70	11.6%	4,310	64	11.1%	4,851	-19	11.0%
福田汽车	600166.SH	46,532	567	13.6%	1.2%	10,973	87	14.0%	11,961	14	13.5%	13,433	37	14.1%
Average		27,576	630	15.2%	2.4%	7,525	138	14.2%	8,739	179	14.1%	8,751	85	14.1%
YoY change %						44.5%	-14.1%		35.0%	21.2%		40.1%	-37.4%	
OEM: CV Buses														
安凯客车	000868.SZ	4,757	51	-18.0%	1.1%	986	-23	6.9%	1,391	-6	8.6%	841	-55	7.4%
中通客车	000957.SZ	9,257	586	21.0%	6.3%	876	45	14.8%	1,403	16	15.6%	2,226	60	14.5%
宇通客车	600066.SH	35,850	4,044	27.8%	11.3%	3,868	316	24.0%	5,445	489	24.9%	9,682	1,097	25.7%
亚星客车	600213.SH	3,396	62	19.1%	1.8%	291	5	18.5%	566	8	15.8%	481	11	16.8%
曙光股份	600303.SH	3,737	61	17.1%	1.6%	884	447	16.5%	1,021	-52	15.1%	793	-11	15.4%
金龙汽车	600686.SH	21,828	(719)	8.9%	-3.3%	2,318	-53	10.3%	3,425	92	13.5%	4,531	191	19.8%
Average		13,138	681	12.6%	3.1%	1,537	123	15.2%	2,208	91	15.6%	3,092	216	16.6%
YoY change %						-37.8%	11.2%		-25.5%	-52.1%		4.5%	39.5%	

Source: Wind, CSCC Research

Figure 8: NEV suppliers' 3Q17 results

RMBm		2016				1Q17			2Q17			3Q17			
		Revenue	Net Profit	Gross Margin	Net Margin	Revenue	Net Profit	Gross Margin 3M17	Revenue	Net Profit	Gross Margin 6M17	Revenue	Net Profit	Gross Margin 9M17	
Battery Packs	国轩高科	002074.SZ	4,758	1,031	46.9%	21.7%	1,108	202	38.1%	1,289	243	36.8%	1,358	194	37.2%
	亿纬锂能	300014.SZ	2,340	252	29.2%	10.8%	570	54	28.9%	774	179	29.5%	643	91	31.3%
	中信国安	000839.SZ	3,927	230	19.8%	5.9%	1,123	55	19.3%	1,179	186	21.3%	905	7	20.5%
	坚瑞沃能	300116.SZ	3,820	425	35.2%	11.1%	2,783	254	30.5%	3,283	305	31.9%	2,542	193	30.4%
Average		3,711	485	32.8%	12.4%	1,396	141	29.2%	1,631	228	29.9%	1,362	121	29.9%	
YoY change %		98%	73%	3.3%	-3%	127%	31%	-2.8%	146%	152%	-0.5%	55%	20%	0.0%	
Electrolytes	天赐材料	002709.SZ	1,837	396	39.8%	21.6%	379	64	36.4%	556	113	36.1%	598	101	35.1%
	多氟多	002407.SZ	2,871	478	41.2%	16.6%	677	69	26.8%	864	82	25.0%	960	57	23.3%
	天际股份	002759.SZ	499	77	35.7%	15.4%	255	81	52.2%	206	53	49.6%	183	22	43.7%
	新宙邦	300037.SZ	1,589	256	38.7%	16.1%	389	68	38.8%	400	59	37.2%	486	77	36.8%
	必康股份	002411.SZ	3,724	954	54.8%	25.6%	827	166	51.9%	904	290	48.1%	1,560	165	37.2%
	石大胜华	603026.SH	3,791	170	11.3%	4.5%	1,122	45	9.5%	1,354	42	8.7%	887	46	9.8%
	江苏国泰	002091.SZ	29,738	541	11.9%	1.8%	7,180	154	10.6%	9,013	215	11.3%	9,473	229	11.3%
	杉杉股份	600884.SH	5,475	330	25.0%	6.0%	1,538	83	27.0%	2,315	256	25.2%	2,791	129	23.7%
Average		6,190.5	400.3	32.3%	13.5%	1,546	91	31.6%	1,952	139	30.2%	2,117	103	27.6%	
YoY change %		130%	71%	4.8%	20%	117%	17%	-2.0%	139%	19%	-3.6%	139%	17%	0.0%	
Positive Electrode	众和股份	002070.SZ	886	(48)	32.7%	-5.5%	220	-15	19.9%	199	-54	14.7%	164	-72	7.4%
	当升科技	000973.SZ	1,335	99	17.0%	7.4%	314	20	18.8%	521	125	17.7%	601	38	17.4%
	斯太尔	000760.SZ	356	46	64.2%	12.9%	37	-45	3.6%	26	165	-22.9%	59	-53	-9.8%
	天齐锂业	002466.SZ	3,905	1,512	71.2%	38.7%	1,064	406	68.8%	1,351	518	68.6%	1,546	594	69.8%
	赣锋锂业	002460.SZ	2,844	464	34.6%	16.3%	625	136	34.0%	1,000	471	34.2%	1,217	396	37.6%
	西藏矿业	000762.SZ	696	21	25.7%	3.1%	60	-23	5.9%	104	-10	10.0%	262	37	32.6%
	江特电机	002176.SZ	2,985	197	25.5%	6.6%	353	45	26.2%	668	17	24.5%	918	149	27.3%
	西藏城投	600773.SH	2,751	73	11.9%	2.7%	207	14	27.9%	372	25	20.8%	167	15	23.9%
	正海磁材	300224.SZ	1,588	191	26.5%	12.0%	151	5	28.7%	252	-20	21.5%	343	18	20.5%
	Average		1,927.2	284.0	34.4%	10.5%	337	60	26.0%	499	137	21.0%	586	125	25.2%
YoY change %		92%	406%	13.5%	-63.4%	-11%	15%	-1%	1%	61%	-9%	27%	40%	0%	
Separator	星源材质	300568.SZ	506	155	60.6%	30.7%	120	35	52.8%	127	36	53.1%	140	21	50.6%
	沧州明珠	002108.SZ	2,765	487	32.9%	17.6%	699	137	32.1%	936	148	29.5%	1,003	160	29.4%
	佛塑科技	000973.SZ	2,466	126	24.7%	5.1%	611	22	22.1%	626	21	21.2%	657	20	21.2%
	创新股份	002818.SZ	1,221	556	69.4%	45.5%	301	159	71.2%	333	179	70.8%	323	169	70.2%
Average		1,739.3	331.1	46.9%	24.7%	432	88	44.6%	506	96	43.7%	531	92	42.9%	
YoY change %		7%	52%	4.6%	18%	15%	10%		12%	9%	-4%	17%	14%	0%	

Source: Wind, CSCC Research

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14 November 2017

New JV models, capacity secures growth momentum

- *Trumpchi* production capacity constraints will be mitigated in FY18E while the supply shortage of AT gearboxes had been alleviated since 4Q17.
- We expect JV *Toyota's* profit contribution will see improvement in FY18E on the back of the facelifted Camry and newly launched C-HR SUVs given *Toyota's* highest margin among all JVs and the promising outlook for Japanese car brands in the domestic market.
- In anticipation of higher GPM ahead on increase in sales of *Trumpchi* SUVs upon completion of capacity expansion and higher profit margins of *Toyota* and *FCA* in FY18E, we have revised up our FY17E/18E earnings estimates by 7.1%/16.9% respectively, which generated a new PT of HKD24.7, pegging on FY18E 10.0X PER (prev. FY18E 9.0X PER) and representing 18.6% upside potential. Thus, maintain Buy.

Alleviating capacity constraint and AT gearbox shortage from FY18E and 4Q17

Due to the capacity constraints at the Guangzhou plant, FY17E GAC *Trumpchi* production volume will be capped at c.500k units on the back of planned 350k production capacity, albeit running at the highest utilisation rate. Such capacity constraints in FY18E will be largely mitigated after the Hangzhou plant commences operation again upon capacity ramp-up. Meanwhile, GAC has also faced shortage of supply of parts throughout FY17E, in particularly GS8's AT gearboxes on the back of the better-than-expected car sales; subsequently, monthly shipments during Apr-Sep have been constrained to only c.7k units on the basis of the initial contract signed with its supplier, Aisin, to supply 10k units of such gearboxes. Nonetheless, as Aisin has agreed to provide an additional 20k units of AT gearboxes in 4Q17, it has effectively driven GS8 shipments to exceed 10k units in Oct-17 and shipments are likely to continue to rise in the following two months, in our view. As such, we believe *Trumpchi* will be able to secure a sufficient supply of parts for FY18E after production capacity ramp-up, and deliver a higher shipment volume of c.700k units at most in FY18E, as per our estimate.

GAC earnings likely to be driven higher leveraging on new JV *Toyota* models in FY18E.

The brand new third production line at the JV *Toyota* plant in Guangzhou with an annual production capacity of 100k units will start shipment in early FY18E and will ramp up gradually to 100k units by the end of FY18E. The new facelifted Camrys will be assembled at this production line in 1H18, followed by the C-HR SUVs in 2H18. And on completion of upgrade of the old Camry production line, the entire third production line will be exclusively used for the manufacturing of compact size models like C-HR. Being the most anticipated *Toyota* model in FY18E, we expect the monthly shipments of the new Camry will likely exceed 10,000 units and largely compensate for the sales decline after the old Camry ceases production in 4Q17, with sales growth to come in at c.35% YoY for FY18E compared to a negative 20% YoY growth in FY17E, per our estimate. Given that the JV *Toyota* usually maintains the highest margin among all the GAC JVs, increase in the sales of *Toyota* models will effectively drive GAC's earnings higher in FY18E, in our view.

Further margin expansion ahead. We expect a higher growth rate for *Trumpchi* SUVs, like GS3, GS7 and GS8, after the capacity expansion, which will improve the margin and trigger for a re-rating ahead, in our view. Additionally, in light of JV *Toyota* and *FCA* are expected to post higher shipments and profits in FY18E, benefiting from the launch of new models, we have revised up our FY17E/18E earnings estimates by 7.1%/16.9% respectively to reflect potential margin improvement, deriving a new PT of HKD24.7, pegging on FY18E 10.0X PER (prev. FY18E 9.0X PER) and representing 18.6% upside potential, thus, maintain Buy.

GAC

(2238 HK)

Buy

(unchanged)

Price Target	HKD24.7
(Revision)	(30%)
(upside)	(18.6%)

EPS revision	2017E	2018E
	(7.1%)	(16.9%)

Close price	HKD20.85
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Market cap.	USD23,819mn
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Free float	90.6%
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52-week range	HKD8.93 –
	HKD22.05

3-mth ave. T/O	HKD372.8mn
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Price as of 14 Nov, 2017

Stock rel HSI performance (%)


TIAN Yang
(CE No.: BGL791)
tianyang@csci.hk +852 3465 5775

Income statement (RMBm)

Year end: Dec	2015	2016	2017E	2018E	2019E
Revenue	29,418	49,418	72,286	93,573	112,251
COGS	(25,975)	(41,961)	(59,311)	(75,893)	(90,194)
Gross profit	3,444	7,456	12,975	17,680	22,057
Selling expenses	(1,867)	(3,396)	(4,988)	(6,550)	(7,970)
General and administrative	(2,037)	(2,739)	(3,614)	(4,679)	(5,613)
Other operating expenses					
EBITDA	1,187	3,461	6,941	9,533	12,173
Depreciation & Amortization	(1,647)	(2,140)	(2,568)	(3,082)	(3,698)
Other income	847	820	738	778	821
EBIT	387	2,141	5,111	7,229	9,295
Net interest	(310)	(377)	(386)	(384)	(424)
JVs and associates	4,720	5,774	7,150	9,299	10,526
Pretax profit	4,386	7,050	11,362	15,605	18,832
Taxation	(400)	(754)	(1,506)	(2,029)	(2,530)
Minority interests	(226)	8	8	8	8
Net profit	4,212	6,288	9,848	13,568	16,294
Net profit (adjusted)					
Basic EPS (RMB)	0.65	0.98	1.53	2.10	2.52
Diluted EPS (RMB)	0.65	0.97	1.52	2.10	2.52
DPS (RMB)	0.20	0.30	0.46	0.63	0.76

Balance sheet (RMBm)

Year end: Dec	2015	2016	2017E	2018E	2019E
Cash	11,548	12,580	6,381	7,810	10,124
Short term investments					
Accounts receivables	8,727	8,371	10,000	11,000	11,000
Inventory	1,927	2,494	2,568	2,645	2,725
Other current assets	5,696	11,501	17,966	20,136	20,323
Total current assets	27,898	34,945	36,915	41,591	44,172
PP&E	10,581	11,856	14,077	16,037	17,683
Intangible Assets	4,827	5,319	6,204	6,849	7,208
Associates and JVs	18,478	22,658	28,085	35,392	43,253
Other long term assets	5,340	7,368	7,069	7,735	8,396
Total long term assets	39,226	47,201	55,434	66,013	76,540
TOTAL ASSETS	67,220	82,146	92,350	107,604	120,713
Short term debt	4,279	4,478	5,657	5,996	6,356
Accounts payables	14,077	19,128	22,000	25,800	25,801
Other current liabilities	300	667	300	300	301
Total current liabilities	18,656	24,273	27,957	32,097	32,459
Long term debt	7,649	10,346	10,057	10,660	11,300
Deferred tax	42	72	72	72	72
Convertible bonds	-	-	-	-	1
Other long term liabilities	1,382	2,561	1,672	1,842	1,921
Total long term liabilities	9,072	12,979	11,801	12,574	13,294
TOTAL LIABILITIES	27,728	37,253	39,759	44,671	45,752
Shareholders' funds	38,647	43,856	51,546	61,881	73,900
Minority interests	845	1,037	1,045	1,053	1,060
TOTAL LIAB AND EQUITY	67,220	82,146	92,350	107,604	120,713
Net cash / (debt)	(379)	(2,245)	(9,332)	(8,847)	(7,532)

Source: Company, Bloomberg, CSCI Research estimates

Cash flow statement (RMBm)

Year end: Dec	2015	2016	2017E	2018E	2019E
EBIT	387	2,141	5,111	7,229	9,295
Depreciation & amortisation	1,647	2,140	2,568	3,082	3,698
Net interest	310	377	386	384	424
Taxes paid	(400)	(754)	(1,506)	(2,029)	(2,530)
Changes in working capital	2,629	1,239	1,198	2,619	(190)
Others					
Cash flow from operations	3,891	4,910	6,473	9,977	9,284
Capex	(4,322)	(5,212)	(6,256)	(6,262)	(6,269)
Acquisitions	(2,109)	(1,093)	(1,300)	(1,600)	(1,602)
Disposals	16,042	26,539	(367)	-	1
Others	(8,869)	(26,348)	(3,480)	1,604	4,176
Cash flow from investing	742	(6,114)	(11,403)	(6,258)	(3,694)
Dividends	(1,068)	(1,348)	(2,158)	(3,234)	(4,275)
Issue of shares	-	-	-	-	-
Change in debt	(2,469)	3,267	889	943	999
Others	165	275	-	-	-
Cash flow from financing	(3,372)	2,194	(1,269)	(2,291)	(3,275)
Change in cash	1,260	990	(6,198)	1,428	2,314
Free cash flow	(431)	(302)	217	3,715	3,015

Key ratios

Year end: Dec	2015	2016	2017E	2018E	2019E
Operating ratios					
Gross margin	11.7	15.1	17.9	18.9	19.6
EBITDA margin (%)	4.0	7.0	9.6	10.2	10.8
Effective tax rate (%)	9.1	10.7	13.3	13.0	13.4
Revenue growth (%)	31.4	68.0	46.3	29.4	20.0
Net income growth (%)	31.9	49.3	56.6	37.8	20.1
EPS growth adj (%)	31.9	49.7	55.7	37.8	20.1
DPS growth (%)	25.0	50.0	52.6	37.8	20.1
Efficiency ratios					
ROE (%)	10.9	14.3	19.1	21.9	22.0
ROCE (%)	0.8	3.7	7.9	9.6	10.5
Asset turnover (x)	0.4	0.6	0.8	0.9	0.9
Op cash / EBIT (x)	10.1	2.3	1.3	1.4	1.0
Depreciation / CAPEX (x)	0.4	0.4	0.4	0.5	0.6
Accounts receivable days	88.4	63.1	46.4	41.0	35.8
Accounts payable days	173.7	144.4	126.6	114.9	104.4
Leverage ratios					
Net gearing (%)	1.0	5.1	18.1	14.3	10.2
Net debt / EBITDA (x)	0.3	0.6	1.3	0.9	0.6
Interest cover (x)	1.2	5.7	13.3	18.8	21.9
Current ratio (x)	1.5	1.4	1.3	1.3	1.4
Valuation					
PER (x)	27.3	18.2	11.7	8.5	7.1
EV/EBITDA (x)	97.8	34.2	18.1	13.1	10.2
PBR (x)	3.0	2.6	2.2	1.9	1.6
Dividend yield (x)	1.1	1.7	2.6	3.5	4.2



Research

LIU Taisheng, Steven
TMT
(852) 3465 5652
stevenliu@csci.hk

SO Lai Shan, Jennifer
Consumer
(852) 3465 5781
jenniferso@csci.hk

CHAN Ka Yeung, Duncan
Commodity
(852) 3465 5654
duncanchan@csci.hk

TIAN Yang
Automotive
(852) 3465 5775
tianyang@csci.hk

SUN Lingxiao, Roger
Industrials
(852) 3465 5785
rogersun@csci.hk

YAO Xue, Snowy
snowyyao@csci.hk
+852 3465 5675

SHEN Xiangfei, Thomas
(852) 3465 8689
thomasshen@csci.hk

XU Qiwen
(852) 3465 8690
xuqiwen@csci.hk

Institutional Sales & Trading

XIANG Xinrong, Ron
(852) 3465 5633
ronxiang@csci.hk

HO Wen Hao, Jack
(852) 3465 5685
jackho@csci.hk

WANG Zhuo, Gary
(852) 3465 8655
wangzhuo@csci.hk

LEE Ying Ju, Rose
(852) 3465 5707
roselee@csci.hk

LI Jiageng, Mike
(852) 3465 5636
mikeli@csci.hk

XIA Tian
(852) 3465 5670
xiatian@csci.hk

XU Xiaowei, Vincent
(852) 3465 5795
vincentxu@csci.hk

Company Rating Definition

The Benchmark: Hong Kong Hang Seng Index; Time Horizon: 12 months

Buy	12-month absolute total return: >=10%
Hold	12-month absolute total return: >-10% but <10%
Sell	12-month absolute total return: <=-10%

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China Securities (International) Research

18/F, Two Exchange Square, Central, Hong Kong

Tel: (852) 34655600 Fax: (852)21809495

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