

16 October 2018

Consumer Cyclical | Auto & Autoparts

Auto & Autoparts

Neutral (Maintained)

Weakness Continues Into 4Q18

Stocks Covered: 3

Ratings (Buy/Neutral/Sell): 1 / 1 / 1

Last 12m Earnings Revision Trend: Negative

On 15 Oct, the CPCA announced China September auto sales data. Sales of wholesale passenger vehicles, excluding mini buses, were 2.02m units, -7.8% YoY, the third consecutive month of decline. The sales drop was due to SUV and sedan sales declines of 8.8% YoY and 6.5% YoY. For 9M18, wholesale passenger vehicle sales, excluding mini buses, reached 16.9m units, growing 1.2%. Electric vehicle sales, meanwhile, surged 70% YoY to 98,667 units. We are negative on 4Q18F auto sales growth, and forecast a decline of 1% for 2018. Maintain NEUTRAL, as the whole auto sector is still under pressure; our Top Pick is Geely.

The China Passenger Car Association (CPCA) announced China's September auto sales data on 15 Oct. Wholesale passenger vehicles, excluding mini buses, charted sales of are 2.02m units, down 7.6% YoY. This was the third consecutive month of decline, due to the drop in SUV and sedan sales of 1m units (-8.8% YoY) and 878,710 units (-6.5% YoY).

September weakness shows market fragmentation. Though September recorded the third month in a row of declining sales, new energy vehicle sales grew 70% YoY, driven by the Government's push. Geely as a group achieved 15% YoY sales growth in the month. The sluggish September data is worse than we anticipated, as we forecast 40% YoY sales growth for Geely, but we expect sales to be boosted by the new launch of the C03 sedan in October. Dongfeng Honda's sales grew 16% YoY, while Great Wall Motors posted an 18% YoY drop, dragged by the slowing SUV market – we also still do not expect strong sales for its new models. As such, we may continue to see market share consolidation in 4Q18, estimating a 5% sales drop marketwide in 4Q18.

Electric vehicle (EV) sales the sweet spot. EV sales remain strong, rising 70% YoY driven by the central Government's parallel policies. EV sales were led by BYD at 26,111 units (+123% YoY) and BAIC EV's 10,733 units (+13% YoY). We consider this segment to be the only bright spot for the auto sector for the foreseeable future.

Maintain NEUTRAL, as the whole auto sector is still under pressure. Our Top Pick is Geely.

Figure 1: September China auto market statistics

Units	PV	PV ex Mini Bus	Sedan	MPV	SUV	Mini Bus
Sep 2018	2,058,776	2,024,748	1,000,709	145,329	878,710	34,028
Sep 2017	2,228,718	2,195,270	1,096,919	158,649	939,702	33,448
YoY	-7.6%	-7.8%	-8.8%	-8.4%	-6.5%	1.7%
9M18	17,192,657	16,883,577	8,418,167	1,226,083	7,260,208	309,080
9M17	17,045,392	16,678,044	8,304,478	1,417,464	6,956,102	388,306
YoY	0.9%	1.2%	1.4%	-13.5%	4.4%	-20.4%

Source: China Passenger Car Association (CPCA)

Company Name	Rating	Price	Target	% Upside (Downside)	P/E (x) Dec-19F	P/BV (x) Dec-19F
Geely Automobile	BUY	13.8	29.0	105.1%	5.58	1.76
Great Wall Motor	SELL	4.7	3.7	-17.0%	4.43	0.60
BYD	NEUTRAL	50.1	44.5	-7.4%	26.80	1.63

Source: Company data, RHB

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Trading Buy: Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

Neutral: Share price may fall within the range of +/- 10% over the next 12 months

Take Profit: Target price has been attained. Look to accumulate at lower levels

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