

12 July 2018

Consumer Cyclical | Automobiles & Components

## Geely Automobile

**Buy** (Maintained)

### Earnings Surprise Again

**Maintain BUY and HKD29 TP, 47% upside. Geely again posted a net profit surprise on 11 Jul and expects 50% earnings growth in 1H18. This increase can be attributed to a 35% growth in Geely brand volume growth and margins improvement, as well as faster-than-expected Lynk & Co earnings contributions and other income from its car loan business. Our TP is based on 0.50x PEG (lowered from 0.60x) on its 3-year CAGR of 35%. Downside risks to our call includes unsuccessful sales from the Lynk & Co brand.**

**Geely Automobile again posted an earnings surprise on 11 Jul**, and we see 1H18's Geely brand volume increase of >35% YoY as the major driver for revenue and earnings growth. Under an environment of 3% 6M18 YoY growth within the Chinese auto market, Geely's strong sales may drive bargaining power over its suppliers, as well as decrease fixed product line costs and SG&A expenses/car. We estimate 1H18 GPM and NPM increasing 0.1ppt and 0.9ppts YoY.

**Lynk & Co is starting to contribute**, and the faster net profit increase vs revenue is being driven earlier-than-expected earnings contributions and an increase in the car loans business. This JV has started to contribute earlier because the C01 model is manufactured by the parent company. Thus, there are lower depreciation & amortisation costs vs the C02, which was launched on 29 Jun, as well as the C03 slated for launch in 2H18. The C02 and C03 are manufactured at the new Zhangjiakou plant. We estimate Lynk & Co's 2018 sales at 184,000 units, comprising: 120,000 units (C01), 40,000 units (C02), and 24,000 units (C03). 46,252 C01 units were sold in 1H18 and we estimate earnings contributions of ~CNY250m – earnings/C01 is ~CNY5,405.

**Upcoming strong growth.** We adjust up our FY18-20 earnings by 14%, 8% and 13% to reflect continued strong sales, as well as new launch models possibly ensuring future earnings CAGR of 35% during 2018-2020. In the former's case, we see good 6M18 sales – even from 1H17's high base – driven by the GL and GS, and new Vision X3 and Vision S1, which were launched in Aug 2017 and Nov 2017. This created incremental sales volumes over 2017. In the latter case, this includes the launches of the Borui GE, a maiden MPV and new sports sedan, as well as Lynk & Co's C01 plug-in hybrid electric vehicle, and C02 and C03 models in 2H18. The current portfolio and upcoming models pipeline is too strong to hinder growth, thus we use PEG to value Geely.

**Maintain BUY and HKD29 TP, 47% upside**, as we lower PEG to 0.50x from 0.60x on its 3-year CAGR of 35% and 18x 2018F P/E. This takes into consideration flat growth in Chinese auto sales for the next three years and is backed by our HKD32.20 DCF valuation. After a market correction YTD, we believe Geely has come to a low entry point at 12x 2018F P/E. We view this as justified, considering our estimated 2017-2019 ROEs are sustained at 35%. Unsuccessful sales from the Lynk & Co brand are a risk to our call.

Target Price: HKD29.00  
 Price: HKD19.80  
 Market Cap: USD22,692m  
 Bloomberg Ticker: 175 HK

#### After

Avg Daily Turnover (HKD/USD) 978m/125m  
 52-wk Price low/high (HKD) 17.6 - 29.2  
 Free Float (%) 49  
 Shares outstanding (m) 9,156  
 Estimated Return 47%

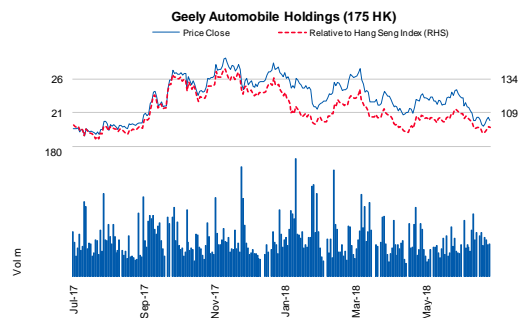
#### Shareholders (%)

Proper Glory 29.5

#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(26.8)	(18.4)	(16.5)	(24.6)	7.0
Relative	(21.4)	(9.5)	(8.1)	(15.6)	(2.4)

Source: Bloomberg



Source: Bloomberg

Forecasts and Valuations	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Total turnover (CNYm)	53,722	92,761	118,122	137,603	159,717
Reported net profit (CNYm)	5,112	10,634	14,178	19,837	24,547
Recurring net profit (CNYm)	4,800	10,161	14,178	19,837	24,547
Recurring net profit growth (%)	112.4	111.7	39.5	39.9	23.7
Recurring EPS (CNY)	0.54	1.11	1.55	2.17	2.68
DPS (CNY)	0.11	0.22	0.30	0.42	0.52
Recurring P/E (x)	31.4	15.2	10.9	7.8	6.3
P/B (x)	6.09	4.37	3.26	2.41	1.83
P/CF (x)	12.9	12.6	8.8	7.2	6.6
Dividend Yield (%)	0.6	1.3	1.8	2.5	3.1
EV/EBITDA (x)	18.2	10.5	7.5	6.0	4.7
Return on average equity (%)	23.3	36.1	35.2	36.7	34.1
Net debt to equity	net cash	net cash	net cash	net cash	net cash
Our vs consensus EPS (adjusted) (%)			1.1	8.9	9.9

Source: Company data, RHB

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## Financial Exhibits

Financial model updated on: 2018-07-12.

Asia	<b>Financial summary</b>	<b>Dec-16</b>	<b>Dec-17</b>	<b>Dec-18F</b>	<b>Dec-19F</b>	<b>Dec-20F</b>
Hong Kong	Recurring EPS (CNY)	0.54	1.11	1.55	2.17	2.68
Consumer Cyclical	EPS (CNY)	0.57	1.16	1.55	2.17	2.68
<b>Geely Automobile</b>	DPS (CNY)	0.11	0.22	0.30	0.42	0.52
Bloomberg 175 HK	BVPS (CNY)	2.77	3.86	5.18	6.99	9.23
<b>Buy</b>	Weighted avg adjusted shares (m)	8,917	9,156	9,156	9,156	9,156
<b>Valuation basis</b>	<b>Valuation metrics</b>	<b>Dec-16</b>	<b>Dec-17</b>	<b>Dec-18F</b>	<b>Dec-19F</b>	<b>Dec-20F</b>
Our HKD29 is based on 0.50x PEG of its 3-year earnings CAGR after taking into consideration Geely's new models portfolio, margins improvement and product upgrades. Our TP is also backed by our DCF of HKD32.20.	Recurring P/E (x)	31.4	15.2	10.9	7.8	6.3
	P/E (x)	29.4	14.5	10.9	7.8	6.3
	P/B (x)	6.09	4.37	3.26	2.41	1.83
	FCF Yield (%)	5.7	5.7	4.7	6.1	6.1
	Dividend Yield (%)	0.6	1.3	1.8	2.5	3.1
	EV/EBITDA (x)	18.2	10.5	7.5	6.0	4.7
	EV/EBIT (x)	23.3	11.3	8.0	6.4	5.0
<b>Key drivers</b>	<b>Income statement (CNYm)</b>	<b>Dec-16</b>	<b>Dec-17</b>	<b>Dec-18F</b>	<b>Dec-19F</b>	<b>Dec-20F</b>
1.00	Total turnover	53,722	92,761	118,122	137,603	159,717
	Gross profit	9,842	17,981	23,016	26,536	30,801
	EBITDA	7,523	13,139	17,683	20,164	23,082
	Depreciation and amortisation	(1,654)	(935)	(1,136)	(1,316)	(1,326)
	Operating profit	5,868	12,204	16,547	18,848	21,756
	Net interest	(30)	(35)	(167)	(172)	(177)
	Income from associates & JVs	(9)	42	652	5,154	7,910
	Exceptional income - net	374	563	0	0	0
	Pre-tax profit	6,204	12,774	17,032	23,829	29,488
	Taxation	(1,034)	(2,039)	(2,718)	(3,803)	(4,706)
	Minority interests	(58)	(102)	(136)	(190)	(235)
	Recurring net profit	4,800	10,161	14,178	19,837	24,547
	<b>Cash flow (CNYm)</b>	<b>Dec-16</b>	<b>Dec-17</b>	<b>Dec-18F</b>	<b>Dec-19F</b>	<b>Dec-20F</b>
	Change in working capital	3,621	354	2,129	56	(2,735)
	Cash flow from operations	11,646	12,287	17,606	21,425	23,402
	Capex	(3,141)	(3,452)	(10,345)	(12,052)	(13,988)
	Cash flow from investing activities	(2,557)	(7,961)	(11,910)	(11,129)	(14,216)
	Proceeds from issue of shares	761	1,393	0	0	0
	Dividends paid	(960)	(1,997)	(2,663)	(3,725)	(4,610)
	Cash flow from financing activities	1,103	(2,496)	(2,624)	(3,685)	(4,568)
	Cash at beginning of period	9,167	15,045	13,415	17,139	28,904
	Net change in cash	10,192	1,829	3,072	6,611	4,617
	Ending balance cash	19,428	16,846	16,487	23,750	33,521
	<b>Balance sheet (CNYm)</b>	<b>Dec-16</b>	<b>Dec-17</b>	<b>Dec-18F</b>	<b>Dec-19F</b>	<b>Dec-20F</b>
	Total cash and equivalents	15,045	13,415	17,139	28,904	41,431
	Tangible fixed assets	17,119	24,621	33,178	38,760	43,513
	Total investments	1,002	4,805	6,305	5,316	5,475
	Total other assets	2,213	2,547	2,623	2,702	2,783
	Total assets	67,583	84,981	109,632	136,159	167,761
	Short-term debt	174	1,296	1,335	1,375	1,417
	Total long-term debt	2,068	0	0	0	0
	Total liabilities	42,897	50,170	63,170	73,396	84,826
	Shareholders' equity	24,437	34,467	45,983	62,094	82,032
	Minority interests	249	344	479	669	904
	Total equity	24,686	34,811	46,462	62,763	82,936
	Net debt	(12,803)	(12,118)	(15,804)	(27,529)	(40,014)
	Total liabilities & equity	67,583	84,981	109,632	136,159	167,761
	<b>Key metrics</b>	<b>Dec-16</b>	<b>Dec-17</b>	<b>Dec-18F</b>	<b>Dec-19F</b>	<b>Dec-20F</b>
	Revenue growth (%)	78.3	72.7	27.3	16.5	16.1
	Recurrent EPS growth (%)	109.8	106.2	39.5	39.9	23.7
	Gross margin (%)	18.3	19.4	19.5	19.3	19.3
	Operating EBITDA margin (%)	14.0	14.2	15.0	14.7	14.5
	Net profit margin (%)	9.5	11.5	12.0	14.4	15.4
	Dividend payout ratio (%)	18.8	18.8	18.8	18.8	18.8
	Capex/sales (%)	5.8	3.7	8.8	8.8	8.8
	Interest cover (x)	50.8	75.2	99.0	109.5	122.7

Source: Company data, RHB

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Figure 1: Geely's 1H18 earnings preview

CNY mn	1H18F	1H17	YoY	2H18	2H17	YoY	2018F	2,017	YoY
<b>Sales</b>	<b>54,538</b>	<b>39,424</b>	<b>38.3%</b>	<b>63,584</b>	<b>53,337</b>	<b>19.2%</b>	<b>118,122</b>	<b>92,761</b>	<b>27.3%</b>
COGS	44,012	31,870	38.1%	51,094	42,910	19.1%	95,107	74,779	27.2%
Gross profit	10,526	7,554	39.3%	12,490	10,427	19.8%	23,016	17,981	28.0%
Other income	1,200	661	81.4%	1,245	568	119.3%	2,445	1,229	98.9%
Selling and distribution	2,385	1,737	37.2%	2,780	2,318	19.9%	5,165	4,056	27.3%
G&A expense	1,718	1,181	45.6%	2,003	1,742	15.0%	3,722	2,923	27.3%
Other expenses	13	14	-8.7%	15	14	8.9%	28	28	0.0%
Operating profit	7,610	5,283	44.0%	8,937	6,921	29.1%	16,547	12,204	35.6%
Income/ (loss) from JCE and associates	300	36	743.1%	352	7	5102.3%	652	42	1439.9%
Gain on disposal	0	0	NA	0	563	NA	0	563	NA
Net interest expense	77	9	732.9%	90	26	246.5%	167	35	374.4%
PBT	7,833	5,310	47.5%	9,199	7,464	23.2%	17,032	12,774	33.3%
Taxation	1,255	923	35.9%	1,463	1,115	31.2%	2,718	2,039	33.3%
<b>Net profit</b>	<b>6,578</b>	<b>4,386</b>	<b>50.0%</b>	<b>7,736</b>	<b>6,349</b>	<b>21.8%</b>	<b>14,314</b>	<b>10,735</b>	<b>33.3%</b>
Minorities	63	43	46.2%	73	59	24.0%	136	102	33.3%
Net profit attributable	6,515	4,344	50.0%	7,663	6,290	21.8%	14,178	10,634	33.3%
Recurring	6,515	4,344	50.0%	7,663	5,812	31.9%	14,178	10,161	39.5%
<b>Key metrics</b>									
Gross margin	19.3%	19.2%	0.1%	19.6%	19.5%	0.1%	19.5%	19.4%	0.1%
Operating margin	14.0%	13.4%	0.6%	14.1%	13.0%	1.1%	14.0%	13.2%	0.9%
Net margin	12.1%	11.1%	0.9%	12.2%	11.9%	0.3%	12.1%	11.6%	0.5%
Selling as % of Sales	4.4%	4.4%	0.0%	4.4%	4.3%	0.0%	4.4%	4.4%	0.0%
G&A as % of Sales	3.2%	3.0%	0.2%	3.2%	3.3%	-0.1%	3.2%	3.2%	0.0%
Tax rate	16.0%	17.4%	-1.4%	15.9%	14.9%	1.0%	16.0%	16.0%	0.0%

Source: RHB

Figure 2: Changes to P&amp;L forecasts

(HKDm)	FY18F			FY19F			FY20F		
	Original	New	chg (%)	Original	New	chg (%)	Original	New	chg (%)
<b>Revenue</b>	<b>111,970</b>	<b>118,122</b>	<b>5%</b>	<b>123,191</b>	<b>137,603</b>	<b>12%</b>	<b>143,564</b>	<b>159,717</b>	<b>11%</b>
Cost of goods sold	90,265	95,107	5%	99,558	111,066	12%	116,022	128,916	11%
<b>Gross Profit</b>	<b>21,705</b>	<b>23,016</b>	<b>6%</b>	<b>23,634</b>	<b>26,536</b>	<b>12%</b>	<b>27,542</b>	<b>30,801</b>	<b>12%</b>
Opex	(6,599)	(6,469)	-2%	(7,379)	(7,689)	4%	(8,722)	(9,045)	4%
Interest expense - net	(167)	(167)	0%	(172)	(172)	0%	(177)	(177)	0%
JV	0	652	NA	5,948	5,154	NA	7,351	7,910	NA
<b>Profit before tax</b>	<b>14,939</b>	<b>17,032</b>	<b>14%</b>	<b>22,030</b>	<b>23,829</b>	<b>8%</b>	<b>25,994</b>	<b>29,488</b>	<b>13%</b>
Taxation	(2,384)	(2,718)	14%	(3,516)	(3,803)	8%	(4,148)	(4,706)	13%
Minority Interests	119	136	N/A	175	190	N/A	207	235	N/A
<b>Reported net profit</b>	<b>12,673</b>	<b>14,449</b>	<b>14%</b>	<b>18,690</b>	<b>20,216</b>	<b>8%</b>	<b>22,052</b>	<b>25,017</b>	<b>13%</b>
<b>Recurring net profit</b>	<b>12,436</b>	<b>14,178</b>	<b>14%</b>	<b>18,339</b>	<b>19,837</b>	<b>8%</b>	<b>21,638</b>	<b>24,547</b>	<b>13%</b>
Gross profit margin (%)	19.4%	19.5%	0.1%	19.2%	19.3%	0.1%	19.2%	19.3%	0.1%
Reported net profit margin (%)	11.3%	12.2%	0.9%	15.2%	14.7%	-0.5%	15.4%	15.7%	0.3%
Recurring net profit margin (%)	11.1%	12.0%	0.9%	14.9%	14.4%	-0.5%	15.1%	15.4%	0.3%

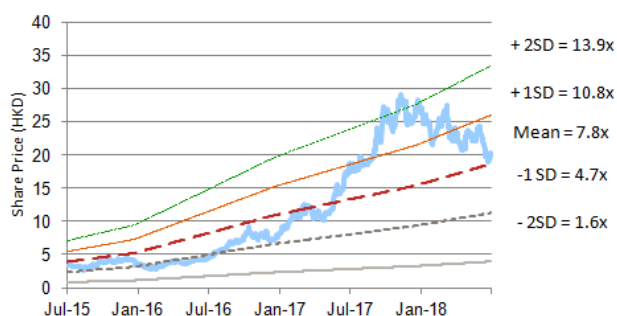
Source: RHB

Figure 3: Geely's DCF

CNYm	2018F	2019F	2020F	2021F	2022F	2023F	TV
EBIT	16,547	18,848	22,617	24,879	27,367	30,103	
Tax rate	16%	16%	16%	16%	16%	16%	
EBIT*(1-t)	13,906	15,840	19,008	20,908	22,999	25,299	
Dep	1,136	1,316	1,579	1,895	2,084	2,293	
Chg in working capital	(2,129)	(56)	2,735	3,282	3,938	4,726	
Capex	(10,345)	(12,052)	(13,988)	(16,786)	(20,143)	(24,172)	
Dividends from investments	652	5,154	6,184	7,421	8,906	10,687	
FCFF	3,220	10,202	15,518	16,720	17,784	18,833	248,245
Discount factor	1.00	1.10	1.20	1.32	1.45	1.59	1.59
PV of FCFF	3,220	9,297	12,886	12,652	12,263	11,834	155,989
Present corporate value	218,141						
+ cash	17,139						
- Borrowings	(1,335)						
Present equity value	233,945						
DCF value per share							
TP (HKD)	32.2						
Assumptions							
WACC	9.7%						
Risk-free rate	4.5%						
Beta	1.2						
Market return	10.2%						
Cost of equity	11.3%						
Cost of debt	6%						
Debt/(Debt+Equity)	30%						
Terminal growth	2%						

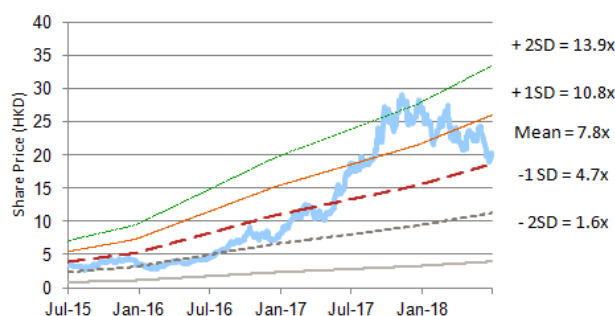
Source: RHB

Figure 4: Geely's 3-year forward P/E band



Source: Bloomberg, RHB

Figure 5: Geely's 3-year forward P/E band



Source: Bloomberg, RHB

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Figure 6: Peers Comparison I

Company	Ticker	Price	Mkt cap (US\$m)	3-mth avg t/o (US\$m)	PER Hist (x)	PER FY1 (x)	PER FY2 (x)	EPS FY1 YoY%	EPS FY2 YoY%	3-Yr EPS Cagr (%)	PEG (x)	Div yld Hist (%)	Div yld FY1 (%)	P/B Hist (x)	P/B FY1 (x)
GEELY AUTOMOBILE	175 HK	19.84	22,692	132.8	31.4	14.2	10.6	121.2	34.1	60.7	0.2	1.5	1.3	4.4	4.3
<b>HSI</b>		<b>28,689</b>			<b>11.5</b>	<b>11.4</b>	<b>10.3</b>	<b>0.3</b>	<b>10.7</b>	<b>7.1</b>	<b>1.6</b>	<b>3.7</b>	<b>3.6</b>	<b>1.3</b>	<b>1.3</b>
<b>CSI300</b>		<b>3,459</b>			<b>13.1</b>	<b>11.7</b>	<b>10.1</b>	<b>12.5</b>	<b>15.2</b>	<b>14.6</b>	<b>0.8</b>	<b>2.3</b>	<b>2.6</b>	<b>1.7</b>	<b>1.5</b>
<b>Sector avg (Auto)</b>					<b>11.8</b>	<b>10.0</b>	<b>8.8</b>	<b>13.4</b>	<b>12.6</b>	<b>3.3</b>	<b>1.9</b>	<b>3.5</b>	<b>3.6</b>	<b>2.0</b>	<b>1.7</b>
<b>Chinese OEMs-H</b>															
BYD CO LTD-H	1211 HK	47.35	17,874	42.3	21.5	28.8	27.7	(25.3)	3.8	1.6	18.1	0.4	0.3	2.1	1.8
GREAT WALL MOT-H	2333 HK	5.26	10,723	31.0	3.9	8.1	5.9	(52.4)	38.7	(8.6)	N/A	4.0	3.8	0.8	0.8
DONGFENG MOTOR-H	489 HK	7.70	8,452	14.2	4.0	4.1	3.9	(1.3)	3.9	1.1	3.8	7.7	4.4	0.5	0.5
GUANGZHOU AUTO-H	2238 HK	7.21	13,809	37.2	5.1	4.5	4.1	12.3	12.2	11.1	0.4	6.4	6.7	0.9	0.8
BRILLIANCE CHINA	1114 HK	13.70	8,806	48.2	13.4	8.6	6.8	56.4	27.0	31.7	0.3	0.8	1.3	2.2	1.8
BAIC MOTOR-H	1958 HK	7.15	7,301	28.6	20.3	7.0	5.4	189.7	28.9	64.8	0.1	1.7	4.6	1.1	1.0
<b>Average</b>					<b>11.37</b>	<b>10.18</b>	<b>8.95</b>	<b>29.91</b>	<b>19.09</b>	<b>16.95</b>	<b>4.54</b>	<b>3.49</b>	<b>3.54</b>	<b>1.29</b>	<b>1.10</b>
<b>Chinese OEMs-A</b>															
GREAT WALL MO-A	601633 CH	9.57	10,723	6.2	17.4	11.8	10.5	46.9	13.0	21.8	0.5	1.8	2.5	1.7	1.6
GUANGZHOU AUTO-A	601238 CH	10.28	13,809	18.2	8.6	7.7	6.9	11.1	11.4	9.3	0.8	3.7	3.7	1.4	1.3
SAIC MOTOR-A	600104 CH	34.68	60,732	84.1	11.7	10.7	9.9	9.3	8.6	8.0	1.3	4.8	5.7	1.7	1.7
CHONGQING CHAN-A	000625 CH	8.10	5,555	16.4	5.4	5.6	5.2	(2.2)	7.8	2.1	2.6	5.5	5.6	0.8	0.7
<b>Average</b>					<b>10.78</b>	<b>8.96</b>	<b>8.11</b>	<b>16.28</b>	<b>10.19</b>	<b>10.33</b>	<b>1.34</b>	<b>3.93</b>	<b>4.38</b>	<b>1.42</b>	<b>1.31</b>
<b>European OEMs</b>															
BAYER MOTOREN WK	BMW GY	78.87	59,986	139.4	6.0	7.0	6.7	(13.7)	3.9	(2.1)	N/A	5.1	5.1	0.9	0.9
DAIMLER AG	DAI GY	57.18	71,609	227.5	5.8	6.3	6.1	(8.2)	4.0	(1.3)	N/A	6.4	6.3	0.9	0.9
FIAT CHRYSLER AU	FCA IM	16.66	30,330	172.8	N/A	5.0	4.8	N/A	4.8	N/A	N/A	N/A	1.9	N/A	1.0
PEUGEOT SA	UG FP	21.01	22,254	49.4	9.6	7.8	6.9	22.8	13.9	13.8	0.6	2.5	3.2	1.3	1.2
RENAULT SA	RNO FP	73.38	25,402	75.2	3.9	4.7	4.5	(16.4)	2.5	(4.9)	N/A	4.8	5.2	0.7	0.6
VOLKSWAGEN AG	VOW GY	140.60	83,134	14.4	6.2	5.4	4.9	15.5	9.0	9.6	0.6	2.8	3.8	0.7	0.6
VOLKSWAGEN-PREF	VOW3 GY	142.82	82,939	179.3	6.3	5.5	5.0	15.5	9.0	9.6	0.6	2.8	3.7	0.7	0.6
<b>Average</b>					<b>6.31</b>	<b>5.95</b>	<b>5.56</b>	<b>2.59</b>	<b>6.74</b>	<b>4.12</b>	<b>0.57</b>	<b>4.06</b>	<b>4.15</b>	<b>0.87</b>	<b>0.82</b>
<b>US OEMs</b>															
FORD MOTOR CO	F US	11.09	44,193	407.4	5.8	7.2	7.3	(18.8)	(1.4)	(4.5)	N/A	6.6	5.8	1.2	1.1
GENERAL MOTORS C	GM US	39.37	55,476	439.0	N/A	6.2	6.1	N/A	0.4	(232.9)	N/A	3.9	3.9	1.6	1.5
<b>Average</b>					<b>5.81</b>	<b>6.66</b>	<b>6.70</b>	<b>(18.85)</b>	<b>(0.50)</b>	<b>(118.73)</b>	<b>N/A</b>	<b>5.22</b>	<b>4.82</b>	<b>1.41</b>	<b>1.30</b>
<b>European OEMs</b>															
SUBARU CORP	7270 JP	3,117	21,447	103.0	10.8	9.1	8.1	19.0	12.2	11.4	0.8	4.6	4.6	1.5	1.4
HONDA MOTOR CO	7267 JP	3,238	52,468	134.2	5.5	8.1	7.4	(32.0)	8.5	(6.8)	N/A	3.2	3.6	0.7	0.7
MAZDA MOTOR	7261 JP	1,317	7,443	54.9	7.2	9.2	8.0	(22.0)	15.3	(0.3)	N/A	2.7	2.7	0.7	0.7
NISSAN MOTOR CO	7201 JP	1,020	38,511	119.4	5.3	7.3	6.6	(26.4)	9.7	(4.3)	N/A	5.2	5.5	0.7	0.7
SUZUKI MOTOR	7269 JP	6,177	27,131	85.1	12.6	12.0	11.2	5.7	7.2	6.9	1.7	1.2	1.3	2.1	1.9
TOYOTA MOTOR	7203 JP	7,132	208,173	440.1	8.5	9.0	8.4	(6.3)	7.2	2.2	4.1	3.1	3.2	1.1	1.0
<b>Average</b>					<b>8.33</b>	<b>9.11</b>	<b>8.29</b>	<b>(10.33)</b>	<b>10.03</b>	<b>1.52</b>	<b>2.22</b>	<b>3.32</b>	<b>3.49</b>	<b>1.15</b>	<b>1.05</b>
<b>Korean OEMs</b>															
HYUNDAI MOTOR	005380 KS	121,500	23,815	71.8	8.1	8.5	7.0	(4.1)	20.4	8.6	1.0	2.5	3.6	0.4	0.5
KIA MOTORS CORP	000270 KS	30,900	11,146	27.2	12.8	7.1	5.8	80.5	22.0	35.5	0.2	2.6	3.2	0.5	0.4
<b>Average</b>					<b>10.45</b>	<b>7.77</b>	<b>6.42</b>	<b>38.17</b>	<b>21.17</b>	<b>22.07</b>	<b>0.59</b>	<b>2.53</b>	<b>3.38</b>	<b>0.41</b>	<b>0.46</b>
<b>India OEMs</b>															
ASHOK LEYLAND	AL IN	133.2	5,687	36.6	22.1	N/A	N/A	N/A	N/A	N/A	N/A	1.8	1.7	5.3	N/A
BAJAJ AUTO LTD	BJAUT IN	3,161.6	13,312	21.3	21.7	19.3	17.4	12.2	11.3	11.0	1.8	1.9	2.1	4.5	4.1
HERO MOTOCORP LT	HMCL IN	3,536.6	10,277	18.0	19.0	17.6	15.9	7.8	10.5	9.6	1.8	2.7	3.0	5.9	5.3
MAHINDRA & MAHIN	MM IN	931.0	16,841	32.9	13.5	19.7	15.8	(31.7)	24.4	N/A	N/A	0.7	1.1	2.7	2.7
MARUTI SUZUKI IN	MSIL IN	9,384.7	41,250	61.7	36.0	28.3	23.5	26.9	20.6	N/A	N/A	0.8	1.2	6.7	5.8
TATA MOTORS LTD	TTMT IN	267.8	12,396	60.4	10.1	8.6	6.8	18.3	26.5	16.4	0.5	N/A	0.4	1.0	0.9
<b>Average</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>20</b>	<b>19</b>	<b>16</b>	<b>7</b>	<b>19</b>	<b>12</b>	<b>1</b>	<b>1.6</b>	<b>1.6</b>	<b>4.3</b>	<b>3.8</b>
<b>Turkish OEMs</b>															
TOFAS	TOASO TI	22.80	2,363	6.1	8.9	7.8	7.7	13.8	1.4	9.3	0.8	7.0	7.5	3.8	2.8
FORD OTO	FROTO TI	59.60	4,335	5.1	14.0	11.9	10.9	17.5	9.2	13.9	0.9	5.7	5.7	6.5	5.3
<b>Average</b>					<b>11.45</b>	<b>9.87</b>	<b>9.31</b>	<b>15.64</b>	<b>5.33</b>	<b>11.57</b>	<b>0.85</b>	<b>6.35</b>	<b>6.59</b>	<b>5.15</b>	<b>4.02</b>

Note: Closing prices as at 11 Jul 2018

Source: RHB Bloomberg

12 July 2018

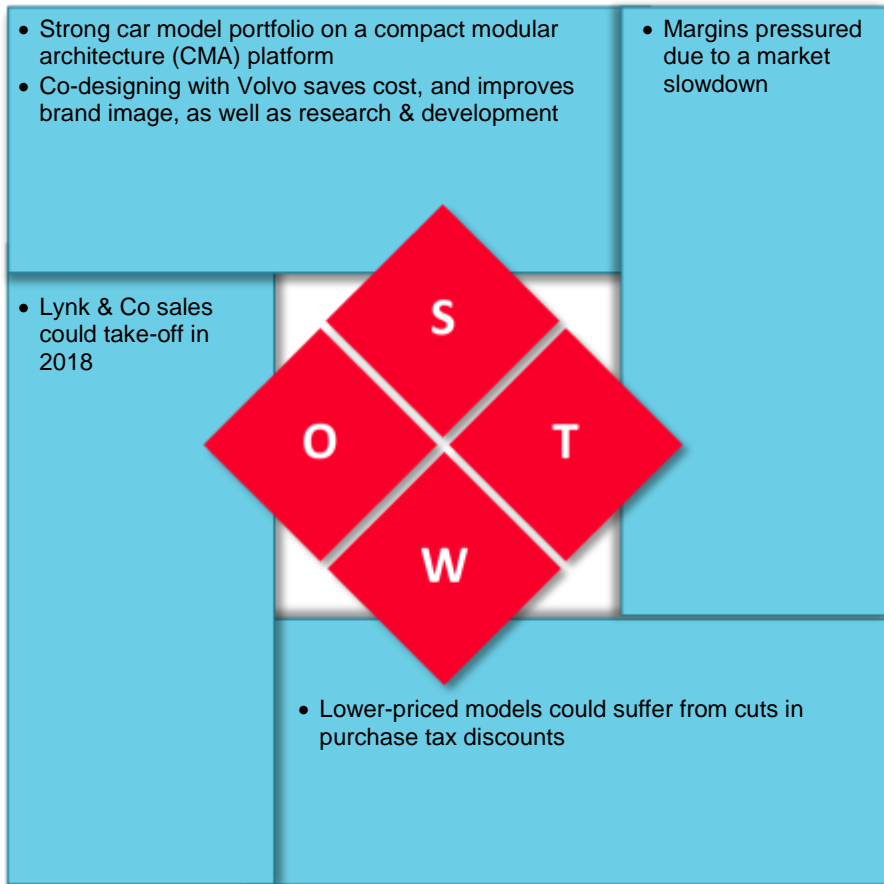
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Figure 7: Peers Comparison II

Company	Rev Hist (US\$m)	Rev FY1 (US\$m)	NP Hist (US\$m)	NP FY1 (US\$m)	Unlev beta	Gross margin Hist (%)	Net margin Hist (%)	Net margin FY1 (%)	ROE Hist (%)	ROE FY1 (%)	Sh px 1-mth %	Sh px 3-mth %
GEELY AUTOMOBILE	13,881	13,881	1,591	1,591	1.5	19.4	11.5	11.5	36.1	35.7	(18.7)	(15.4)
HSI									11.2	11.0	(7.3)	(5.1)
CSI300									12.9	13.3	(8.5)	(10.2)
<b>Sector avg (Auto)</b>	<b>61,304</b>	<b>64,704</b>	<b>3,295</b>	<b>3,699</b>	<b>0.9</b>	<b>18.0</b>	<b>9</b>	<b>10</b>	<b>16.9</b>	<b>16.9</b>	<b>(9.6)</b>	<b>(10.8)</b>
<b>Chinese OEMs</b>												
BYD CO LTD-H	15,361	15,361	609	545	0.7	17.5	4.0	3.5	6.7	7.7	(11.9)	(25.1)
GREAT WALL MOT-H	14,555	15,139	752	752	0.6	15.6	5.2	5.0	10.4	10.4	(30.1)	(32.9)
DONGFENG MOTOR-H	18,708	18,844	2,104	2,096	0.6	12.9	11.2	11.1	13.7	12.1	(16.4)	(11.4)
GUANGZHOU AUTO-H	10,711	13,000	1,647	1,942	1.0	18.0	15.4	14.9	19.4	17.7	(23.1)	(33.2)
BRILLIANCE CHINA	794	830	655	1,019	0.7	3.5	82.5	122.8	17.4	22.6	(11.3)	(13.8)
BAIC MOTOR-H	20,076	22,791	337	1,044	0.6	26.5	1.7	4.6	5.6	15.3	(19.1)	(19.7)
GREAT WALL MO-A	14,555	17,072	752	1,122	0.5	15.6	5.2	6.6	10.3	14.0	(10.2)	(15.2)
GUANGZHOU AUTO-A	10,711	13,111	1,647	1,962	0.6	18.0	15.4	15.0	18.0	18.3	(24.0)	(28.3)
SAIC MOTOR-A	129,105	138,577	5,149	5,640	0.7	13.6	4.0	4.1	15.9	15.8	(5.6)	5.3
CHONGQING CHAN-A	11,513	12,396	1,068	1,026	N.A	N/A	9.3	8.3	12.9	14.2	(16.9)	(28.8)
<b>Average</b>	<b>24,609</b>	<b>26,712</b>	<b>1,472</b>	<b>1,715</b>	<b>0.7</b>	<b>15.7</b>	<b>15.4</b>	<b>19.6</b>	<b>13.0</b>	<b>14.8</b>	<b>(16.9)</b>	<b>(20.3)</b>
<b>European OEMs</b>												
BAYER MOTOREN WK	84,311	85,343	7,365	6,355	0.7	20.2	8.7	7.4	16.6	13.2	(7.6)	(12.2)
DAIMLER AG	140,405	145,335	8,993	8,250	1.1	20.9	6.4	5.7	16.4	15.7	(6.9)	(12.4)
FIAT CHRYSLER AU	94,783	99,351	2,983	4,479	1.3	15.3	3.1	4.5	18.7	20.9	(8.0)	(10.4)
PEUGEOT SA	55,716	65,226	1,648	2,118	1.2	18.6	3.0	3.2	14.2	15.4	2.5	4.4
RENAULT SA	50,214	51,897	4,369	3,768	1.2	20.9	8.7	7.3	16.0	13.4	(11.5)	(21.4)
VOLKSWAGEN AG	197,097	205,331	9,935	11,396	1.0	18.4	5.0	5.5	11.4	11.7	(11.5)	(17.9)
VOLKSWAGEN-PREF	197,097	205,331	9,935	11,396	1.2	18.4	5.0	5.5	11.4	11.7	(10.3)	(17.5)
<b>Average</b>	<b>117,089</b>	<b>122,545</b>	<b>6,461</b>	<b>6,823</b>	<b>1.11</b>	<b>18.97</b>	<b>6</b>	<b>6</b>	<b>14.96</b>	<b>14.58</b>	<b>(7.62)</b>	<b>(12.49)</b>
<b>US OEMs</b>												
FORD MOTOR CO	156,776	147,907	7,602	6,177	1.0	10.4	4.8	4.2	23.1	16.7	(7.8)	(3.0)
GENERAL MOTORS C	145,588	145,737	(3,864)	9,090	1.2	21.1	(2.7)	6.2	(13.6)	24.8	(12.2)	0.9
<b>Average</b>	<b>151,182</b>	<b>146,822</b>	<b>1,869</b>	<b>7,633</b>	<b>1.10</b>	<b>15.76</b>	<b>1.10</b>	<b>5.21</b>	<b>4.77</b>	<b>20.76</b>	<b>(10.03)</b>	<b>(1.03)</b>
<b>European OEMs</b>												
SUBARU CORP	30,455	29,972	1,971	2,331	1.0	28.3	6.5	7.8	14.6	15.9	(8.5)	(11.8)
HONDA MOTOR CO	137,386	139,706	9,474	6,388	N.A	21.9	6.9	4.6	13.9	8.8	(8.9)	(13.3)
MAZDA MOTOR	31,071	31,958	1,002	813	1.3	23.6	3.2	2.5	10.0	7.4	(7.0)	(8.9)
NISSAN MOTOR CO	106,888	105,637	6,680	4,934	N.A	17.9	6.2	4.7	14.6	9.8	(7.4)	(9.1)
SUZUKI MOTOR	33,604	34,991	1,929	2,037	0.8	29.4	5.7	5.8	17.8	16.5	(3.9)	5.1
TOYOTA MOTOR	262,763	263,989	22,306	20,421	0.7	18.7	8.5	7.7	13.7	11.7	(3.6)	3.8
<b>Average</b>	<b>100,361</b>	<b>101,042</b>	<b>7,227</b>	<b>6,154</b>	<b>0.93</b>	<b>23.29</b>	<b>6.18</b>	<b>5.52</b>	<b>14.12</b>	<b>11.68</b>	<b>(6.55)</b>	<b>(5.71)</b>
<b>Korean OEMs</b>												
HYUNDAI MOTOR	86,035	85,897	3,600	3,343	N.A	18.2	4.2	3.9	3.8	5.3	(13.5)	(20.1)
KIA MOTORS CORP	47,791	47,366	864	1,577	1	16.7	1.8	3.3	2.4	6.4	(5.9)	(2.4)
<b>Average</b>	<b>66,913</b>	<b>66,631</b>	<b>2,232</b>	<b>2,460</b>	<b>0.58</b>	<b>17.45</b>	<b>3.00</b>	<b>3.61</b>	<b>3.11</b>	<b>5.87</b>	<b>(9.73)</b>	<b>(11.22)</b>
<b>India OEMs</b>												
ASHOK LEYLAND	4,225	N/A	256	N/A	0.4	N/A	6.1	N/A	25.5	N/A	(7.6)	(8.2)
BAJAJ AUTO LTD	3,592	4,073	613	688	0.8	N/A	17.1	16.9	22.4	22.0	9.5	14.4
HERO MOTOCORP LT	4,625	5,171	541	583	0.8	N/A	11.7	11.3	33.4	30.9	(4.1)	(5.7)
MAHINDRA & MAHIN	13,391	11,790	1,092	1,005	0.5	N/A	8.2	8.5	22.6	16.9	1.5	18.2
MARUTI SUZUKI IN	11,359	13,413	1,146	1,410	1.0	N/A	10.1	10.5	19.8	21.3	4.1	2.0
TATA MOTORS LTD	42,840	47,733	1,307	1,519	1.5	N/A	3.1	3.2	11.7	11.0	(13.0)	(25.3)
<b>Average</b>	<b>13,338</b>	<b>16,436</b>	<b>826</b>	<b>1,041</b>	<b>1</b>	<b>N/A</b>	<b>9</b>	<b>10</b>	<b>23</b>	<b>20</b>	<b>(2)</b>	<b>(1)</b>
<b>Turkish OEMs</b>												
TOFAS	3,704	4,126	266	301	N.A	11.3	7.2	7.3	46.5	37.0	(7.3)	(16.8)
FORD OTO	5,253	6,353	309	366	N.A	10.4	5.9	5.8	53.2	43.7	(7.6)	(2.9)
<b>Average</b>	<b>4,478</b>	<b>5,239</b>	<b>287</b>	<b>333</b>	<b>N/A</b>	<b>10.87</b>	<b>6.53</b>	<b>6.53</b>	<b>49.83</b>	<b>40.35</b>	<b>(7.46)</b>	<b>(9.86)</b>

Source: RHB, Bloomberg

## SWOT Analysis



## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2018-03-22	Buy	29.0	25.3
2017-11-29	Buy	32.1	28.0
2017-08-17	Buy	23.1	19.0
2017-07-24	Neutral	15.6	18.6
2017-06-05	Neutral	14.2	14.4
2017-05-05	Buy	12.0	10.3

Source: RHB, Bloomberg

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**Buy:** Share price may exceed 10% over the next 12 months

**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

**Sell:** Share price may fall by more than 10% over the next 12 months

**Not Rated:** Stock is not within regular research coverage

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