

21 February 2019

Consumer Cyclical | Auto & Autoparts

Auto & Auto Parts

Neutral (Maintained)

January Sales Sluggish – In Line

Stocks Covered 3
 Ratings (Buy/Neutral/Sell): 1 / 1 / 1
 Last 12m Earnings Negative

- **Stay NEUTRAL, sector Top Pick: Geely Automobile.** Chinese auto sector sales were down double-digits for the second consecutive month on a YoY basis. This was due to tightening liquidity, as well as a high base and slowing economy. We prefer Geely, as its models portfolio is good enough to sustain future sales.
- **Sluggish January sales.** Chinese wholesale passenger vehicles (PV) – excluding minibuses – sales stood at 2.14m units in January, or down 16% YoY. This is in line with expectations, following the sales trend set during Dec 2018. The reasons:
 - The Lunar New Year calendar effect** – sales may be slightly better in February, as this festive holiday occurred earlier this year when compared with 2018;
 - Continuous efforts by the original equipment manufacturers (OEMs) to destock.** The inventory alert level dropped to 58.9 from 66.1 in Dec 2018 (below 50 is considered healthy). At the same time, OEMs have cut prices and offered discounts to auto consumers in lower tier cities – this echoes the National Development and Reform Commission’s (NDRC) plans to push auto sales in such urban centres. For example: Changan Automobile, FAW-Volkswagen Automobile, and BAIC Motor Corp have offered CNY6,000-20,000 discounts on some models;
 - A high base** for 1Q19.
- **Our full-year sales forecasts:** -8% YoY (without government subsidies) or +5% YoY (with government subsidies). We may continue to see double-digit negative growth in 1Q19, but believe auto sales growth will be slightly better in 2H19 – this is after taking into consideration the low base in 2H18. We also see the high possibility of subsidies in 2H19, as the NDRC did mention plans to push auto sales in lower-tier cities this year.
- **Impressive electric vehicle (EV) sales.** EV sales stood at 91,175 units in January, up an impressive 183.5% YoY. BYD took the lead in this segment with 28,098 units sold (+30.8% YoY). The other top-liners were SAIC-GM Wuling with 8,312 units (+10,290% YoY) and Geely with 6,937 units, or +1,221% YoY. Domestic brands have been aggressively taking market share vis-à-vis foreign marques. This sales growth is beyond expectations, especially when you take into consideration the declining EV subsidy. It is also beyond our +61% YoY growth forecast for 2019 and 2020.

Top Pick **Target Price**
 Geely Automobile (175 HK) – BUY HKD14.20

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Company Name	Rating	TP (HKD)	% Upside (Downside)	P/E (x) Dec-19F	P/B (x) Dec-19F	Yield (%) Dec-19F
Geely Automobile	Buy	14.20	(8%)	8.6	2.1	2.5%
BYD	Neutral	56	10%	27.8	6.9	0.4%
Great Wall Motor	Sell	3.70	(42%)	7.8	0.9	3.9%

Source: Company data, RHB

Figure 1: Chinese PV sales (January)

Units	PVs	PV ex minibuses	Sedans	MPVs	SUVs	Minibuses
Jan-19	2,178,517	2,141,144	1,079,137	148,847	913,190	37,373
Jan-18	2,580,418	2,553,280	1,212,695	214,458	1,126,127	27,138
YoY	(16%)	(16%)	(11%)	(31%)	(19%)	38%

Source: RHB, China Passenger Car Association

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