

China / Hong Kong Company Update

BAIC Motor Corp

Bloomberg: 1958 HK Equity | Reuters: 1958.HK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

28 Mar 2022

HOLD

Last Traded Price (25 Mar 2022): HK\$2.59 (HSI : 21,405)
Price Target 12-mth: HK\$2.90 (12% upside) (Prev HK\$3.00)

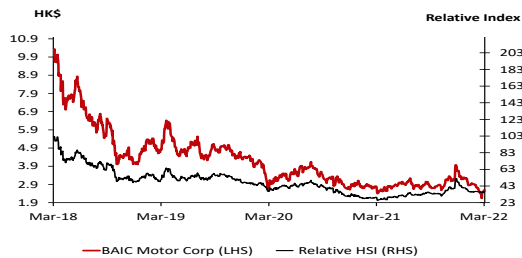
Analyst

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What's New

- FY21 results broadly in line
- Anticipate BJ-Benz to post better earnings on strong new product cycle
- BJ-Hyundai and self-brand remain a drag until vehicle electrification rate improves
- Maintain HOLD; HK\$2.90 TP pegged to 5x FY22F PE

Price Relative



Forecasts and Valuation

FY Dec (RMBm)	2020A	2021A	2022F	2023F
Turnover	176,973	175,916	181,070	197,058
EBITDA	31,409	33,431	34,864	39,792
Pre-tax Profit	20,430	22,920	24,121	28,079
Net Profit	1,917	3,858	3,976	4,430
Net Pft (Pre Ex) (core profit)	1,917	3,858	3,976	4,430
Net Profit Gth (Pre-ex) (%)	(60.8)	101.3	3.0	11.4
EPS (RMB)	0.24	0.48	0.50	0.55
EPS (HK\$)	0.29	0.59	0.61	0.68
EPS Gth (%)	(60.8)	101.3	3.0	11.4
Diluted EPS (HK\$)	0.29	0.59	0.61	0.68
DPS (HK\$)	0.10	0.20	0.18	0.20
BV Per Share (HK\$)	7.84	8.07	8.48	8.98
PE (X)	8.8	4.4	4.2	3.8
P/Cash Flow (X)	0.6	1.3	0.6	0.6
P/Free CF (X)	1.2	8.9	1.2	0.9
EV/EBITDA (X)	0.4	0.6	0.5	0.4
Net Div Yield (%)	3.8	7.6	7.1	7.9
P/Book Value (X)	0.3	0.3	0.3	0.3
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	3.8	7.4	7.4	7.8

Earnings Rev (%)			5	New
Consensus EPS (RMB)			0.49	0.54
Other Broker Recs:	B:2	S:3	H:11	

Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

Outlook dependent on luxury unit

Investment Thesis

BJ-Benz hit by lower volume sales and margin compression.

Due to auto chip shortage and increase in raw material costs, the JV's 2H21 revenue and gross profit fell 16%/29% y-o-y to Rmb80bn/18bn. 2H total vehicle sales fell 28% to 245K units. As a result, BJ-Benz reported 1%/8% decline in FY21 revenue and gross profit, in line with expectations. The robust new model cycle is expected to support gross margins recovery from ~25% in FY21 to around 26-27% in FY22-23F.

Losses at BJ-Hyundai JV narrowed, but challenges remain.

The JV suffered a net loss of Rmb5bn in FY21 vs Rmb6.3bn net loss in FY20, as total vehicle sales plunged 19% to 360k units. Both partners have decided to inject US\$471m each to beef up the capital base for new investments into the vehicle electrification project. The JV's vehicle sales have fallen from a peak of 1.1m units in FY16 due to challenges from growing competition especially in electrification technology.

Self-brand unit profitability not in sight.

Vehicle sales fell 12% y-o-y, resulting in 23% increase in gross loss to Rmb4.5bn. BAIC's self-brand business has been a drag on the group as losses have been widening since FY17's Rmb2.7bn loss. We do not expect a fast turnaround especially under the current environment, and more R&D is needed to broaden the vehicle offerings. Other Chinese auto brands are aggressively investing into new electrification technology including hybrid to ride the industry rapid growth.

Valuation:

Our HK\$2.90 TP is pegged to 5x FY22F PE (prev: 6x) (about 1SD below historical mean) to reflect the challenges faced in the self-brand segment as well as Hyundai JV.

Where we differ:

Our FY22/23F earnings estimates are slightly higher than the market as we expect the luxury car segment to post better growth.

Key Risks to Our View:

Worsening supply chain disruption and commodity inflation could impact volume sales and product margins.

At A Glance

Issued Capital (m shrs)	8,015
Mkt Cap (HK\$m/US\$m)	20,759 / 2,652
Major Shareholders (%)	
Mercedes-Benz Group AG	30.4
Free Float (%)	69.6
3m Avg. Daily Val. (US\$m)	3.64
GICS Industry: Consumer Discretionary / Automobiles & Components	



Watchlist the stock on Insights Direct to receive prompt updates



BAIC Motor Corp

Company Background

BAIC Motor (BAIC) is one of the largest Chinese automakers based in Beijing. It has joint ventures with Daimler AG and Hyundai Motor to assemble and sell Mercedes-Benz and Hyundai cars in China. It also has its own proprietary brand, which was recently revamped under the "Beijing Auto" brand. The group's passenger vehicles comprise both traditional and new energy vehicles, covering sedans, SUVs, MPVs and Crossovers.

BAIC FY21 results performance

Results summary				2H21 vs 2H20	2H21 vs 1H21			21 vs 20	
(RMBm)	1H20	2H20	1H21	2H21	Y-o-Y chg.	H-o-H chg.	FY20	FY21	Y-o-Y
					(%)	(%)			(%)
Revenue	77,854	99,119	90,375	85,541	-13.7%	-5.3%	176,973	175,916	-0.6%
Cost of sales	(59,824)	(75,009)	(69,050)	(69,222)	-7.7%	0.2%	(134,833)	(138,272)	2.6%
Gross profit	18,030	24,110	21,325	16,318	-32.3%	-23.5%	42,140	37,643	-10.7%
Selling & distribution costs	(5,090)	(6,220)	(5,429)	(4,883)	-21.5%	-10.1%	(11,309)	(10,312)	-8.8%
Administrative expenses	(2,656)	(5,328)	(3,151)	(2,648)	-50.3%	-15.9%	(7,984)	(5,799)	-27.4%
Other gains, net	(52)	(450)	1,232	1,195	nm	-3.0%	(502)	2,428	nm
Operating profit	10,233	12,112	13,977	9,983	-17.6%	-28.6%	22,345	23,960	7.2%
Finance costs	20	80	95	(34)	nm	nm	100	61	-39.2%
Share of JCE profits	(1,165)	(850)	(494)	(607)	-28.6%	22.8%	(2,015)	(1,101)	-45.4%
Profit before tax	9,088	11,342	13,579	9,342	-17.6%	-31.2%	20,430	22,920	12.2%
Income tax expense	(3,277)	(4,198)	(4,396)	(3,373)	-19.7%	-23.3%	(7,475)	(7,769)	3.9%
Minority Interest	(4,764)	(6,162)	(6,425)	(4,869)	-21.0%	-24.2%	(10,926)	(11,293)	3.4%
Perpetual interest	(112)	0	0	0	nm	nm	(112)	0	nm
PATMI	935	982	2,758	1,100	12.1%	-60.1%	1,917	3,858	101.3%
EPS (RMB)	0.12	0.12	0.34	0.14	12.0%	-60.1%	0.24	0.48	101.3%

Margin Analysis (%)			ppts	ppts			ppts chg.		
Gross Profit Margin	23.2	24.3	23.6	19.1	-5.2	-4.5	23.8	21.4	-2.4
Operating Profit Margin	13.1	12.2	15.5	11.7	-0.5	-3.8	12.6	13.6	1.0

Revenue breakdown									
Beijing Motor	2,934	4,344	2,316	5,633	29.7%	143.2%	7,278	7,949	9.2%
Beijing Benz	74,920	94,775	88,059	79,908	-15.7%	-9.3%	169,695	167,966	-1.0%
Total	77,854	99,119	90,375	85,540	-13.7%	-5.3%	176,973	175,916	-0.6%

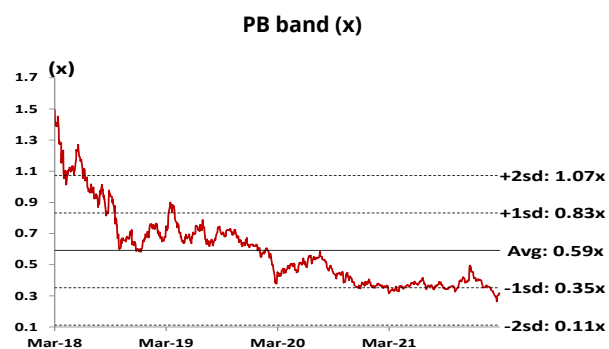
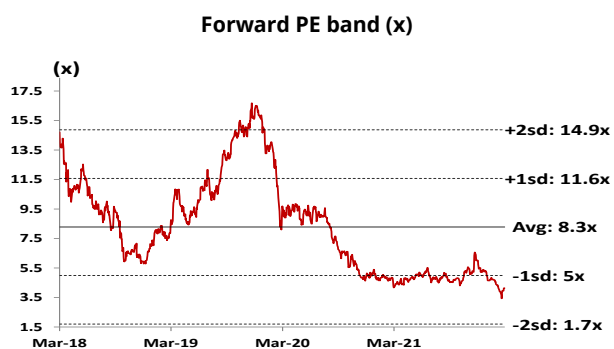
Gross profit breakdown									
Beijing Motor	-1,835	-1,832	-2,496	-2,016	10.1%	-19.2%	-3,666	-4,513	23.1%
Beijing Benz	19,865	26,112	23,821	18,434	-29.4%	-22.6%	45,977	42,255	-8.1%
Total	18,030	24,280	21,325	16,417	-32.4%	-23.0%	42,311	37,742	-10.8%

Gross margins by business				ppts	ppts			ppts chg.	
Beijing Motor	-62.5	-42.2	-107.8	-35.8	6.4	72.0	-50.4	-56.8	-6.4
Beijing Benz	26.5	27.6	27.1	23.1	-4.5	-4.0	27.1	25.2	-1.9

Source: Company

BAIC Motor Corp

Historical PE and PB band



Source: Thomson Reuters, DBS HK

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Key Assumptions

FY Dec	2019A	2020A	2021A	2022F	2023F
Beijing-Benz sales ('000 units)	567.3	610.8	580.3	638.3	702.1
Beijing - Hyundai sales ('000 units)	662.6	446.1	513.0	564.3	620.7
Self brand ('000 units)	167.0	81.8	72.0	75.1	81.1

Source: Company, DBS HK

Segmental Breakdown (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenues (RMB m)					
Beijing Motor	20,257	7,278	7,949	6,416	6,860
Beijing Benz	155,154	169,695	167,966	174,654	190,198
Total	175,410	176,973	175,916	181,070	197,058
Segment Gross Profit (RMB m)					
Beijing Motor	(4,582)	(3,666)	(4,513)	(4,491)	(4,459)
Beijing Benz	42,215	45,977	42,255	45,410	50,973
Total	37,634	42,311	37,742	40,919	46,514
Segment Gross Profit Margins (%)					
Beijing Motor	(22.6)	(50.4)	(56.8)	(70.0)	(65.0)
Beijing Benz	27.2	27.1	25.2	26.0	26.8
Total	21.5	23.9	21.5	22.6	23.6

Source: Company, DBS HK

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Income Statement (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenue	175,410	176,973	175,916	181,070	197,058
Cost of Goods Sold	(137,776)	(134,833)	(138,272)	(140,152)	(150,544)
Gross Profit	37,634	42,140	37,643	40,919	46,514
Other Opng (Exp)/Inc	(15,003)	(19,795)	(13,683)	(16,788)	(18,415)
Operating Profit	22,631	22,345	23,960	24,131	28,099
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	(314)	(2,015)	(1,101)	252	273
Net Interest (Exp)/Inc	(162)	100	61	(262)	(293)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	22,155	20,430	22,920	24,121	28,079
Tax	(6,998)	(7,475)	(7,769)	(8,354)	(9,732)
Minority Interest	(10,161)	(10,926)	(11,293)	(11,791)	(13,917)
Preference Dividend	(112)	(112)	0	0	0
Net Profit	4,884	1,917	3,858	3,976	4,430
Net Profit before Except.	4,884	1,917	3,858	3,976	4,430
EBITDA	30,088	31,409	33,431	34,864	39,792
Growth					
Revenue Gth (%)	15.5	0.9	(0.6)	2.9	8.8
EBITDA Gth (%)	8.3	4.4	6.4	4.3	14.1
Opg Profit Gth (%)	9.7	(1.3)	7.2	0.7	16.4
Net Profit Gth (%)	13.1	(60.8)	101.3	3.0	11.4
Margins & Ratio					
Gross Margins (%)	21.5	23.8	21.4	22.6	23.6
Opg Profit Margin (%)	12.9	12.6	13.6	13.3	14.3
Net Profit Margin (%)	2.8	1.1	2.2	2.2	2.2
ROAE (%)	9.9	3.8	7.4	7.4	7.8
ROA (%)	2.7	1.0	2.1	2.1	2.3
ROCE (%)	15.2	14.0	15.5	14.7	16.3
Div Payout Ratio (%)	27.9	33.5	33.2	30.0	30.0
Net Interest Cover (x)	139.6	NM	NM	92.2	96.0

Source: Company, DBS HK

Interim Income Statement (RMB m)

FY Dec	2H2019	1H2020	2H2020	1H2021	2H2021
Revenue	87,309	77,854	99,119	90,375	85,541
Cost of Goods Sold	(70,333)	(59,824)	(75,009)	(69,050)	(69,222)
Gross Profit	16,976	18,030	24,110	21,325	16,318
Other Oper. (Exp)/Inc	(6,483)	(7,798)	(11,998)	(7,347)	(6,336)
Operating Profit	10,493	10,233	12,112	13,978	9,983
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	60	(1,165)	(850)	(494)	(607)
Net Interest (Exp)/Inc	(53)	20	80	95	(34)
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	10,499	9,088	11,342	13,579	9,342
Tax	(3,492)	(3,277)	(4,198)	(4,396)	(3,373)
Minority Interest	(5,065)	(4,764)	(6,162)	(6,425)	(4,869)
Net Profit	1,943	935	982	2,758	1,100
Net profit bef Except.	1,943	935	982	2,758	1,100
Growth					
Revenue Gth (%)	16.4	(11.6)	13.5	16.1	(13.7)
Opg Profit Gth (%)	13.5	(15.7)	15.4	36.6	(17.6)
Net Profit Gth (%)	29.8	(68.2)	(49.5)	195.0	12.0
Margins					
Gross Margins (%)	19.4	23.2	24.3	23.6	19.1
Opg Profit Margins (%)	12.0	13.1	12.2	15.5	11.7
Net Profit Margins (%)	2.2	1.2	1.0	3.1	1.3

Source: Company, DBS HK

BAIC Motor Corp

Balance Sheet (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Net Fixed Assets	46,329	50,429	50,573	52,954	54,523
Invt in Associates & JVs	16,104	14,296	12,529	12,681	12,854
Other LT Assets	32,719	33,979	31,106	29,992	28,731
Cash & ST Invt	49,322	48,146	40,969	46,196	50,623
Inventory	19,925	20,342	21,141	23,255	25,581
Debtors	21,587	20,553	17,989	19,788	21,766
Other Current Assets	7,226	5,958	6,537	7,058	7,639
Total Assets	193,212	193,703	180,844	191,923	201,717
ST Debt	14,019	11,736	14,751	14,751	14,751
Creditors	44,707	48,017	39,616	41,200	42,848
Other Current Liab	45,571	45,520	37,611	40,324	43,987
LT Debt	9,543	8,721	7,633	9,633	7,633
Other LT Liabilities	6,744	6,115	6,347	6,644	6,972
Shareholder's Equity	50,403	51,088	52,583	55,276	58,514
Minority Interests	22,224	22,506	22,304	24,096	27,013
Total Cap. & Liab.	193,212	193,703	180,844	191,924	201,717
Non-Cash Wkg. Capital	(41,541)	(46,684)	(31,560)	(31,424)	(31,849)
Net Cash/(Debt)	25,760	27,689	18,585	21,812	28,240
Debtors Turn (avg days)	45.3	43.5	40.0	38.1	38.5
Creditors Turn (avg days)	116.7	134.6	124.2	114.0	110.5
Inventory Turn (avg days)	54.5	58.4	58.8	62.6	64.2
Asset Turnover (x)	1.0	0.9	0.9	1.0	1.0
Current Ratio (x)	0.9	0.9	0.9	1.0	1.0
Quick Ratio (x)	0.7	0.7	0.6	0.7	0.7
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	48.5	56.7	49.1	49.2	53.6
Z-Score (X)	NA	NA	NA	NA	NA

Source: Company, DBS HK

Cash Flow Statement (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Pre-Tax Profit	22,155	20,430	22,920	24,121	28,079
Dep. & Amort.	7,457	9,064	9,798	10,734	11,693
Tax Paid	(7,723)	(10,529)	(7,475)	(7,769)	(8,354)
Assoc. & JV Inc/(loss)	314	2,015	1,101	(252)	(273)
(Pft)/ Loss on disposal of FAs	0	0	0	0	0
Chg in Wkg.Cap.	14,050	4,137	(14,008)	(424)	(625)
Other Operating CF	(430)	891	567	0	0
Net Operating CF	35,824	26,008	12,903	26,410	30,519
Capital Exp.(net)	(11,417)	(11,596)	(11,000)	(12,000)	(12,000)
Other Invt.(net)	0	0	0	0	0
Invt in Assoc. & JV	(572)	(190)	0	0	0
Div from Assoc & JV	0	0	0	0	1
Other Investing CF	(18,016)	245	100	100	100
Net Investing CF	(30,005)	(11,540)	(10,900)	(11,900)	(11,900)
Div Paid	(10,002)	(15,115)	(9,641)	(11,282)	(12,193)
Chg in Gross Debt	16,676	(3,851)	2,000	2,000	(2,000)
Capital Issues	0	0	0	0	0
Other Financing CF	1,023	2,320	(1,539)	0	0
Net Financing CF	7,697	(16,646)	(9,181)	(9,282)	(14,193)
Currency Adjustments	417	1,003	0	0	0
Chg in Cash	13,933	(1,176)	(7,178)	5,227	4,427
Opg CFPS (RMB)	2.72	2.73	3.36	3.35	3.89
Free CFPS (RMB)	3.05	1.80	0.24	1.80	2.31

Source: Company, DBS HK

BAIC Motor Corp

Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	30-Apr-21	HK\$2.78	HK\$3.00	Hold
2:	3-Sep-21	HK\$2.89	HK\$3.00	Hold

Source: DBS HK

Analyst: Rachel Miu

BAIC Motor Corp

DBS HK recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

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Sources for all charts and tables are DBS HK unless otherwise specified.

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