

China / Hong Kong Company Update

Dongfeng Motor Group

Bloomberg: 489 HK EQUITY | Reuters: 0489.HK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

6 Apr 2022

HOLD

Last Traded Price (4 Apr 2022): HK\$6.07 (HSI : 22,502)
Price Target 12-mth: HK\$6.40 (5% upside) (Prev HK\$8.00)

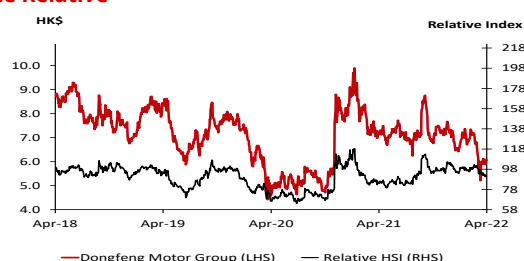
Analyst

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What's New

- JV brands' steady growth expected; eight new models to support earnings fundamentals
- Self-brand business expected to remain loss-making; additional investments required to roll out new models
- Decent yield of 8%
- Maintain HOLD; TP of HK\$6.40 based on 3.8x PE FY22F

Price Relative



Forecasts and Valuation

FY Dec (RMBm)	2020A	2021A	2022F	2023F
Turnover	108,441	113,008	129,977	142,726
EBITDA	16,637	16,955	17,405	19,372
Pre-tax Profit	12,187	12,760	13,673	14,865
Net Profit	10,758	11,387	12,234	13,313
Net Pft (Pre Ex) (core profit)	10,758	11,387	12,234	13,313
Net Profit Gth (Pre-ex) (%)	(16.3)	5.8	7.4	8.8
EPS (RMB)	1.25	1.32	1.42	1.55
EPS (HK\$)	1.54	1.63	1.75	1.90
EPS Gth (%)	(16.3)	5.8	7.4	8.8
Diluted EPS (HK\$)	1.54	1.63	1.75	1.90
DPS (HK\$)	0.43	0.49	0.52	0.57
BV Per Share (HK\$)	19.42	21.06	22.31	23.69
PE (X)	3.9	3.7	3.5	3.2
P/Cash Flow (X)	38.2	4.8	nm	nm
P/Free CF (X)	nm	8.8	nm	nm
EV/EBITDA (X)	1.9	0.7	0.8	0.9
Net Div Yield (%)	7.1	8.1	8.6	9.4
P/Book Value (X)	0.3	0.3	0.3	0.3
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	8.2	8.0	8.1	8.3
Earnings Rev (%)			(8)	New
Consensus EPS (RMB)			1.45	1.54
Other Broker Recs:		B:9	S:0	H:7

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

Self-brand a drag on outlook

Investment Thesis

Better revenue mix to support JVs' earnings trend. Profit from the JVs is projected to post a 7% annual expansion (FY21-23F) to Rmb13.5bn due to volume growth and better mix. There are plans to roll out eight new models in the coming quarters to boost volume sales growth. Besides, both the Nissan and Honda JVs are beefing up their EV strategy to benefit from the sustainable mobility transformation. Honda is building a new EV factory in Wuhan (annual output of 120,000 units), which will be ready by 2024.

Self-brand losses a drag. The self-brand is expected to remain loss-making, as it has yet to reach economies of scale. In FY21, segment losses widened to Rmb5.7bn and are unlikely to turn around in the near term, making it a drag on business outlook. On the other hand, a healthy expansion of its auto financing business helps to offset some of the losses.

Net operating cashflow improved; healthy balance sheet supports decent dividend payout. Cashflows from operations improved to Rmb8.8bn vs. Rmb1.1bn in FY20. Hence, Dongfeng Motor Group (DFG) raised the dividend payout to 30% in FY21 from 28%, translating to a yield of 8%, one of the highest among the auto manufacturers.

Valuation:

We reduced FY22F earnings by 8% due to supply chain disruption and pegged our target PE to 3.8x (1SD below mean) due to the overall auto sector being sold down (prev: 5x) to arrive to a new TP of HK\$6.40. A decent yield of 8% is expected to support the downside risk.

Where we differ:

Despite the low valuation multiples, the stock is perceived as an auto conglomerate, hence capping its share price performance compared to its peers.

Key Risks to Our View:

Slower-than-expected recovery of its loss-making operations and the chip shortage could swing our assumptions downwards.

At A Glance

Issued Capital (m shrs)	8,616
Mkt Cap (HK\$/US\$m)	52,299 / 6,675
Major Shareholders (%)	
Standard Chartered PLC	8.5
Westwood Global Investments, L.L.C.	8.0
INVESCO Asset Management Limited	6.0
Edinburgh Partners Limited	5.4
Free Float (%)	72.1
3m Avg. Daily Val. (US\$m)	7.34
GICS Industry: Consumer Discretionary / Automobiles & Components	



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Dongfeng Motor Group**WHAT'S NEW****Steady JV operations subsidising self-brand operating deficits**

Bulk of earnings from JV brands are subsidising the self-brand operation. We expect the major Japanese JVs to remain the main earnings contributors, despite the current supply chain disruptions, given their scale and new model outlook. In FY21, the share of profits from JVs increased c.20% to Rmb11.8bn, despite a fall in total sales volume of c.9%, to about 1.9m units. This implies that the better revenue mix had helped to drive profits last year and we anticipate the JVs would adopt the same strategy this year, as we are not out of the woods yet in terms of the supply chain disruptions. Based on the new model rollout plans, we estimate total volume sales to post a CAGR of c.12% for FY21-23F and earnings contribution of Rmb13.5bn in FY23. Besides, smaller losses from the DF-PSA JV as a result of an improving vehicle portfolio are a plus for the group.

Self-brand auto business losses widened in FY21; unlikely to turn around in near term. Self-brand total sales volume rose 47% in 2021 to 377k units, and we project sales to increase at an annual rate of c.20% to about 560k units in FY23. DFG is investing to build the self-brand auto business, especially the NEV business. Its high-end VOYAH brand racked up a sales volume of about 7k in 2021 and the total NEV volume under the self-brand segment amounted to about 54k units – but it is yet to hit any meaningful scale compared to its Chinese peers. As a result, the total segment loss from vehicle sales hit Rmb5.7bn, up sharply from Rmb1.8bn in FY21. Therefore, we expect the self-brand business to remain loss-making in the near term, as the domestic auto brand market is highly competitive.

Decent yield to support share price downside; healthy financial position to support generous dividend payout.

DFG raised its dividend payout slightly to 30% in FY21 from 28% a year ago, which translates to a yield of about 8%. It has net cash of Rmb9bn as of end-Dec 21 and, coupled with a decent earnings contribution from the JV, we anticipate the company to maintain a 30% payout, after considering the group's capex requirement. In 2021, the group spent about Rmb15bn on capex.

Cut FY22F earnings due to rising raw material cost

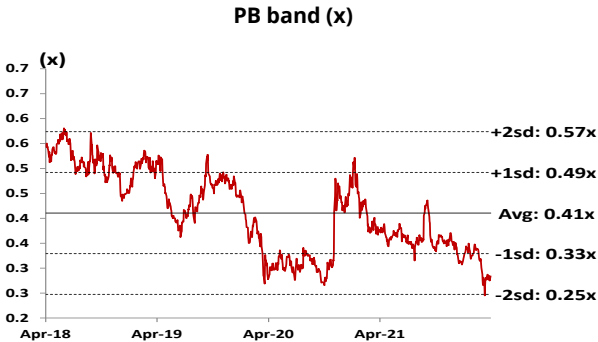
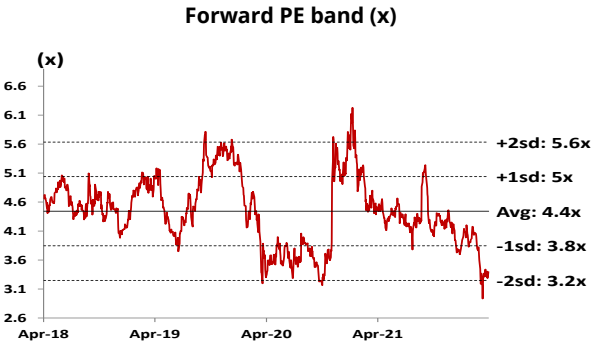
pressure. We reduced FY22F earnings by 8% due to supply chain disruption and pegged our target PE to 3.8x (1SD below mean) due to the overall auto sector being sold down (prev: 5x) to arrive at a new TP of HK\$6.40. Maintain HOLD, as the self-brand is still loss-making and being subsidised by earnings from JVs.

Company Background

Dongfeng Motor Group Company Limited (Dongfeng), through joint ventures, designs, manufactures, and markets diesel engines, light trucks, automobiles, castings, and related spare parts. Under the joint venture companies, the group manufactures Nissan, Honda, Peugeot-Citroen, and Renault vehicles for sale in China. Recently, the group also started manufacturing the high-end Infiniti cars in China. Dongfeng has also developed its self-brand under the Fengshen, Fengxing, and Fengguang series.

Dongfeng Motor Group

Historical PE and PB band



Source: Thomson Reuters, DBS HK

Dongfeng Motor Group

Key Assumptions

FY Dec	2019A	2020A	2021A	2022F	2023F
DF Nissan ('000 units)	1,276.9	1,456.6	1,325.9	1,538.0	1,614.9
DF Honda ('000 units)	800.1	850.3	761.9	914.3	987.4
DF PSA ('000 units)	113.6	50.3	100.6	150.9	165.9
DF self - PV ('000 units)	77.1	70.2	120.3	132.4	139.0
DF self - CV ('000 units)	116.2	4.1	54.1	124.5	186.7

Source: Company, DBS HK

Segmental Breakdown (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenues (RMB m)					
Passenger vehicles	26,738	16,524	32,254	45,114	55,493
Commercial vehicles	68,893	83,514	71,200	74,404	75,780
Financial business	5,456	8,403	9,554	10,460	11,453
Total revenue	101,087	108,441	113,008	129,977	142,726
Total	101,087	108,441	113,008	129,977	142,726

Source: Company, DBS HK

Income Statement (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenue	101,087	108,441	113,008	129,977	142,726
Cost of Goods Sold	(87,596)	(92,629)	(98,818)	(112,430)	(122,745)
Gross Profit	13,491	15,812	14,190	17,547	19,982
Other Opng (Exp)/Inc	(13,857)	(14,874)	(14,769)	(17,333)	(19,451)
Operating Profit	(366)	938	(579)	214	531
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	15,546	12,455	13,604	14,451	15,429
Net Interest (Exp)/Inc	(575)	(1,206)	(265)	(991)	(1,095)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	14,605	12,187	12,760	13,673	14,865
Tax	(1,759)	(1,620)	(1,385)	(1,454)	(1,571)
Minority Interest	12	191	12	14	19
Preference Dividend	0	0	0	0	0
Net Profit	12,858	10,758	11,387	12,234	13,313
Net Profit before Except.	12,858	10,758	11,387	12,234	13,313
EBITDA	18,161	16,637	16,955	17,405	19,372

Growth

Revenue Gth (%)	(3.3)	7.3	4.2	15.0	9.8
EBITDA Gth (%)	6.5	(8.4)	1.9	2.7	11.3
Opg Profit Gth (%)	(61.8)	(356.3)	(161.7)	(136.9)	148.3
Net Profit Gth (%)	(0.9)	(16.3)	5.8	7.4	8.8

Margins & Ratio

Gross Margins (%)	13.3	14.6	12.6	13.5	14.0
Opg Profit Margin (%)	(0.4)	0.9	(0.5)	0.2	0.4
Net Profit Margin (%)	12.7	9.9	10.1	9.4	9.3
ROAE (%)	10.4	8.2	8.0	8.1	8.3
ROA (%)	5.2	3.7	3.6	3.7	3.8
ROCE (%)	(0.2)	0.4	(0.2)	0.1	0.2
Div Payout Ratio (%)	23.5	28.0	30.3	30.0	30.0
Net Interest Cover (x)	(0.6)	0.8	(2.2)	0.2	0.5

Source: Company, DBS HK

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Interim Income Statement (RMB m)

FY Dec	2H2019	1H2020	2H2020	1H2021	2H2021
Revenue	52,640	50,576	57,865	69,856	43,152
Cost of Goods Sold	(46,943)	(42,760)	(49,869)	(59,656)	(39,162)
Gross Profit	5,697	7,816	7,996	10,200	3,990
Other Oper. (Exp)/Inc	(7,539)	(7,022)	(7,852)	(6,543)	(8,226)
Operating Profit	(1,842)	794	144	3,657	(4,236)
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	6,829	4,185	8,270	7,102	6,502
Net Interest (Exp)/Inc	(409)	(599)	(606)	(202)	(59)
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	4,578	4,380	7,809	10,559	2,209
Tax	(585)	(1,000)	(620)	(1,296)	(89)
Minority Interest	366	263	(72)	(630)	642
Net Profit	4,359	3,643	7,115	8,629	2,758
Net profit bef Except.	4,359	3,643	7,118	8,635	2,764
Growth					
Revenue Gth (%)	12.9	4.4	9.9	38.1	(25.4)
Opg Profit Gth (%)	(21.1)	(46.2)	(107.8)	360.6	(3,041.7)
Net Profit Gth (%)	(11.2)	(57.1)	63.2	136.9	(61.2)
Margins					
Gross Margins (%)	10.8	15.5	13.8	14.6	9.2
Opg Profit Margins (%)	(3.5)	1.6	0.2	5.2	(9.8)
Net Profit Margins (%)	8.3	7.2	12.3	12.4	6.4

Source: Company, DBS HK

Dongfeng Motor Group

Balance Sheet (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Net Fixed Assets	17,309	20,118	21,042	25,213	30,786
Invt in Associates & JVs	66,286	68,765	56,514	62,127	67,984
Other LT Assets	49,412	55,699	67,336	67,426	67,442
Cash & ST Invt	50,681	77,421	80,186	83,261	84,292
Inventory	12,191	12,838	11,419	12,218	13,440
Debtors	63,679	73,781	71,952	77,164	83,521
Other Current Assets	12,442	8,538	11,318	12,223	13,201
Total Assets	272,000	317,309	319,767	339,631	360,666
ST Debt	19,259	38,384	28,137	33,137	38,137
Creditors	62,941	79,657	71,825	75,996	80,213
Other Current Liab	21,982	24,534	39,628	41,517	43,678
LT Debt	23,923	22,373	16,652	16,652	16,652
Other LT Liabilities	9,927	11,124	11,461	11,492	11,523
Shareholder's Equity	127,781	135,903	147,342	156,131	165,774
Minority Interests	6,187	5,334	4,722	4,708	4,689
Total Cap. & Liab.	272,000	317,309	319,767	339,632	360,667
Non-Cash Wkg. Capital	3,389	(9,034)	(16,764)	(15,907)	(13,729)
Net Cash/(Debt)	7,499	16,664	35,397	33,472	29,503
Debtors Turn (avg days)	227.1	231.3	235.3	209.4	205.5
Creditors Turn (avg days)	249.8	291.1	291.3	245.9	238.9
Inventory Turn (avg days)	49.4	51.1	46.7	39.3	39.2
Asset Turnover (x)	0.4	0.4	0.4	0.4	0.4
Current Ratio (x)	1.3	1.2	1.3	1.2	1.2
Quick Ratio (x)	1.1	1.1	1.1	1.1	1.0
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	11.4	7.4	8.9	12.1	14.6
Z-Score (X)	1.5	1.4	1.5	1.5	1.5

Source: Company, DBS HK

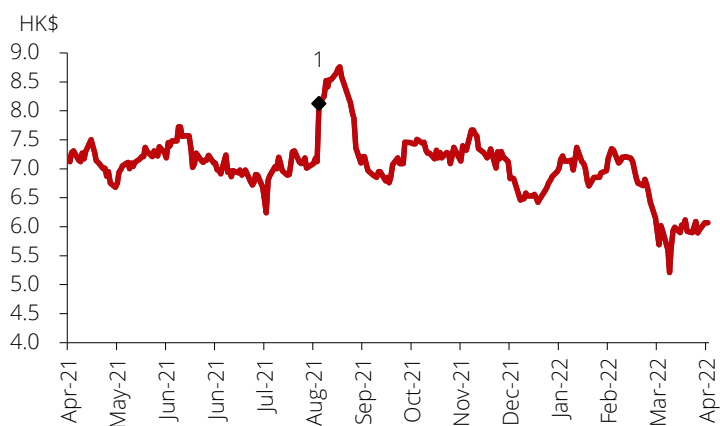
Cash Flow Statement (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Pre-Tax Profit	14,605	12,218	12,760	13,673	14,865
Dep. & Amort.	2,981	3,197	2,529	2,739	3,411
Tax Paid	(1,221)	(1,014)	(1,620)	(1,385)	(1,454)
Assoc. & JV Inc/(loss)	(15,546)	(12,455)	(13,604)	(14,451)	(15,429)
(Pft)/Loss on disposal of FAs	(246)	76	(631)	(14)	65
Chg in Wkg. Cap.	(12,606)	(3,648)	7,737	(2,735)	(4,231)
Other Operating CF	478	2,737	1,672	(991)	(1,095)
Net Operating CF	(11,555)	1,111	8,843	(3,163)	(3,869)
Capital Exp. (net)	(4,909)	(4,512)	(4,000)	(6,000)	(8,000)
Other Invt. (net)	0	0	0	0	0
Invt in Assoc. & JV	(3,523)	2,260	(2,000)	(2,000)	(2,000)
Div from Assoc & JV	13,936	12,462	10,203	10,838	11,572
Other Investing CF	(4,032)	1,224	1,140	5	30
Net Investing CF	1,472	11,434	5,343	2,843	1,602
Div Paid	(3,331)	(3,458)	(3,016)	(3,446)	(3,670)
Chg in Gross Debt	14,753	11,126	5,000	5,000	5,000
Capital Issues	0	0	0	0	0
Other Financing CF	(181)	40	(13,218)	0	0
Net Financing CF	11,241	7,708	(11,234)	1,554	1,330
Currency Adjustments	0	0	0	1	1
Chg in Cash	1,158	20,253	2,952	1,235	(936)
Opg CFPS (RMB)	0.12	0.55	0.13	(0.05)	0.04
Free CFPS (RMB)	(1.91)	(0.39)	0.56	(1.06)	(1.38)

Source: Company, DBS HK

Dongfeng Motor Group

Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	27-Aug-21	HK\$7.12	HK\$8.00	Hold

Source: DBS HK

Analyst: Rachel Miu

Dongfeng Motor Group

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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