

China / Hong Kong Company Update

BAIC Motor Corp

Bloomberg: 1958 HK Equity | Reuters: 1958.HK

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DBS Group Research . Equity

13 Sep 2022

HOLD

Last Traded Price (9 Sep 2022): HK\$2.07 (HSI : 19,362)
Price Target 12-mth: HK\$2.20 (6% upside) (Prev HK\$2.90)

Analyst

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What's New

- Beijing-Benz is introducing a new EQE model in 2H22 to strengthen its market position
- Capital injection to support Beijing-Hyundai's future product innovation
- BAIC self-brand losses widened in 1H; lacks NEV exposure to ride on industry trend
- Maintain HOLD; HK\$2.20 TP pegged to 4x FY22F PE

Price Relative



Forecasts and Valuation

| FY Dec (RMBm) | 2020A | 2021A | 2022F | 2023F |
|--------------------------------|---------|---------|---------|---------|
| Turnover | 176,973 | 175,916 | 181,486 | 209,742 |
| EBITDA | 31,409 | 33,431 | 35,908 | 41,539 |
| Pre-tax Profit | 20,430 | 22,920 | 24,731 | 29,309 |
| Net Profit | 1,917 | 3,858 | 3,834 | 4,305 |
| Net Pft (Pre Ex) (core profit) | 1,917 | 3,858 | 3,834 | 4,305 |
| Net Profit Gth (Pre-ex) (%) | (60.8) | 101.3 | (0.6) | 12.3 |
| EPS (RMB) | 0.24 | 0.48 | 0.48 | 0.54 |
| EPS (HK\$) | 0.27 | 0.55 | 0.54 | 0.61 |
| EPS Gth (%) | (60.8) | 101.3 | (0.6) | 12.3 |
| Diluted EPS (HK\$) | 0.27 | 0.55 | 0.54 | 0.61 |
| DPS (HK\$) | 0.09 | 0.18 | 0.16 | 0.18 |
| BV Per Share (HK\$) | 7.22 | 7.43 | 7.79 | 8.24 |
| PE (X) | 7.6 | 3.8 | 3.8 | 3.4 |
| P/Cash Flow (X) | 0.6 | 1.1 | 0.5 | 0.5 |
| P/Free CF (X) | 1.0 | 3.3 | 0.9 | 0.7 |
| EV/EBITDA (X) | 0.3 | 0.5 | 0.5 | 0.3 |
| Net Div Yield (%) | 4.4 | 8.8 | 7.9 | 8.8 |
| 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 | 7.1 | 7.6 |
| Earnings Rev (%) | | | (4) | (3) |
| Consensus EPS (RMB) | | | 0.50 | 0.54 |
| Other Broker Recs: | | B: 2 | H: 13 | S: 3 |

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

Product innovation as next step

Investment Thesis

Introduction of new model by Beijing-Benz. The JV has launched the EQE model based on the EVA platform to beef up its EV portfolio. We anticipate 2H revenue and profits to grow by 14%/20% h-o-h. Unfortunately, the strong profit from the BJ-Benz would offset the loss-making self-brand.

Beijing-Hyundai will receive capital injection of US\$942m from BAIC Investment and Hyundai. The capital injection is to support future product development and overseas business expansion. The JV is developing eight new models in 1H22 to enhance its JV sales.

Self-brand remains challenging. BAIC's self-brand has launched a smart vehicle MOFANG with Huawei in Jul-22. It is developing a new platform to support PHEV and BEV development. Due to uncompetitive car models, we estimate losses of above Rmb2bn in 2H.

Valuation:

We revised down FY22/23F earnings by 4%/3% and pegged our target PE to 4x (1SD below mean) to derive a new TP of HK\$2.20. Maintain HOLD.

Where we differ:

Our FY22/23F earnings estimates are slightly lower than the market as we expect the self-brand's performance to remain a drag on profits.

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 (HKm/US\$m) | 16,591 / 2,114 |
| Major Shareholders (%) | |
| Mercedes Benz Group AG | 30.4 |
| Free Float (%) | 69.6 |
| 3m Avg. Daily Val. (US\$m) | 2.99 |
| GICS Industry: Consumer Discretionary / Automobiles & Components | |



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BAIC Motor Corp**WHAT'S NEW****Building a more diversified portfolio**

Due to pandemic lockdowns and supply chain disruptions, BAIC's vehicle production and sales were negatively impacted in 1H22. Revenue and gross profit declined by 7% and 13% y-o-y to Rmb83.7bn and Rmb18.6bn respectively. GPM margin was 22.2%, representing a decline of 1.4ppts, largely due to weaker Mercedes Benz car sales in the 1H (fell by about 16%). The self-brand's losses also widened by 6% in 1H22 to Rmb2.6bn, and hence, core net earnings declined by 22% to Rmb2.25bn.

Mercedes Benz JV beefing up its position as a leading domestic luxury brand. Vehicle sales started to rebound in Jun-Jul with y-o-y growth of 66%. The brand owner launched a EQE new model in late-August 2022. It is the first Chinese-produced pure electric model that has adopted the EVA platform. EQE is competing in the mid-to high-end luxury sedan segment. Having the competitive advantage of luxurious branding, EQE would be the next sales driver for BJ-Benz. We expect the JV's volume sales to reach 638k units in FY22, 10% y-o-y growth.

BJ-Hyundai performance slipped in 1H22 due to weak sales. BJ-Hyundai recorded sales volume of only 109k units in 1H22, representing 44% y-o-y decline. Eight new models were developed in 1H22. The seventh generation ELANTRA, tenth-generation Sonata and the TUCSON L N Line 20th anniversary editions, are being mass produced currently. Between 2022-2024, BJ Hyundai plans to release 4 sedans, 4 SUVs and 2 NEVs, to strengthen its product portfolio. We estimate BJ-Hyundai sales to increase 35% h-o-h to 148k units in 2H22.

Due to continual losses in the past few years, both BAIC and Hyundai have decided to inject an additional US\$942m to strengthen the balance sheet to undertake new projects, such as new model developments and overseas business expansion.

BAIC's self-brand outlook remains challenging. The self-brand had sales of 22k units in 1H22, representing 21.4% y-o-y decline. The company launched a new smart compact SUV that was co-developed Huawei, MOFANG, in July and has booked 3,600 units. It features the Harmony OS intelligent operation vehicle system that supports all-scenario driving. MOFANG is expected to drive up sales of its self-brand division in 2H22

Given its lack of NEV exposure, BAIC has entered into a Share Subscription Agreement with BAIC BluePark in July 2022. BAIC BluePark is a unit of BAIC Group that focuses on NEV development. The subscription would facilitate sharing of technology and expertise in new energy development and prepare BAIC for electrification. Also, BAIC is building three platforms, of which two are for NEVs.

Earnings revisions. We revised down net earnings for FY22/23F by 4%/3%, factoring in the weak 1H performance. Our TP of HK\$2.20, is pegged to 4x FY22F PE (1SD below mean). The earnings outlook of the company is not exciting, as the profits from the BJ-Benz JV are used to cover the losses at the self-brand unit. Besides, lack of NEV models could affect the self-brand's business outlook.

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 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 | 746.8 |
| Beijing - Hyundai sales ('000 units) | 662.6 | 446.1 | 513.0 | 256.5 | 287.3 |
| Self brand ('000 units) | 167.0 | 81.8 | 72.0 | 80.0 | 87.9 |

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 | 6,832 | 7,440 |
| Beijing Benz | 155,154 | 169,695 | 167,966 | 174,654 | 202,302 |
| Total | 175,410 | 176,973 | 175,916 | 181,486 | 209,742 |
| Segment Gross Profit (RMB m) | | | | | |
| Beijing Motor | (4,582) | (3,666) | (4,513) | (4,782) | (4,836) |
| Beijing Benz | 42,215 | 45,977 | 42,255 | 46,633 | 54,621 |
| Total | 37,634 | 42,311 | 37,742 | 41,850 | 49,785 |
| Segment Gross Profit Margins (%) | | | | | |
| Beijing Motor | (22.6) | (50.4) | (56.8) | (70.0) | (65.0) |
| Beijing Benz | 27.2 | 27.1 | 25.2 | 26.7 | 27.0 |
| Total | 21.5 | 23.9 | 21.5 | 23.1 | 23.7 |

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 | 181,486 | 209,742 |
| Cost of Goods Sold | (137,776) | (134,833) | (138,272) | (139,636) | (159,957) |
| Gross Profit | 37,634 | 42,140 | 37,643 | 41,850 | 49,785 |
| Other Opng (Exp)/Inc | (15,003) | (19,795) | (13,683) | (16,830) | (20,103) |
| Operating Profit | 22,631 | 22,345 | 23,960 | 25,021 | 29,682 |
| Other Non Opg (Exp)/Inc | 0 | 0 | 0 | 0 | 0 |
| Associates & JV Inc | (314) | (2,015) | (1,101) | (28) | (90) |
| Net Interest (Exp)/Inc | (162) | 100 | 61 | (262) | (283) |
| Dividend Income | 0 | 0 | 0 | 0 | 0 |
| Exceptional Gain/(Loss) | 0 | 0 | 0 | 0 | 0 |
| Pre-tax Profit | 22,155 | 20,430 | 22,920 | 24,731 | 29,309 |
| Tax | (6,998) | (7,475) | (7,769) | (8,666) | (10,290) |
| Minority Interest | (10,161) | (10,926) | (11,293) | (12,231) | (14,714) |
| Preference Dividend | (112) | (112) | 0 | 0 | 0 |
| Net Profit | 4,884 | 1,917 | 3,858 | 3,834 | 4,305 |
| Net Profit before Except. | 4,884 | 1,917 | 3,858 | 3,834 | 4,305 |
| EBITDA | 30,088 | 31,409 | 33,431 | 35,908 | 41,539 |
| Growth | | | | | |
| Revenue Gth (%) | 15.5 | 0.9 | (0.6) | 3.2 | 15.6 |
| EBITDA Gth (%) | 8.3 | 4.4 | 6.4 | 7.4 | 15.7 |
| Opg Profit Gth (%) | 9.7 | (1.3) | 7.2 | 4.4 | 18.6 |
| Net Profit Gth (%) | 13.1 | (60.8) | 101.3 | (0.6) | 12.3 |
| Margins & Ratio | | | | | |
| Gross Margins (%) | 21.5 | 23.8 | 21.4 | 23.1 | 23.7 |
| Opg Profit Margin (%) | 12.9 | 12.6 | 13.6 | 13.8 | 14.2 |
| Net Profit Margin (%) | 2.8 | 1.1 | 2.2 | 2.1 | 2.1 |
| ROAE (%) | 9.9 | 3.8 | 7.4 | 7.1 | 7.6 |
| ROA (%) | 2.7 | 1.0 | 2.1 | 2.1 | 2.2 |
| ROCE (%) | 15.2 | 14.0 | 15.5 | 15.2 | 17.0 |
| Div Payout Ratio (%) | 27.9 | 33.5 | 33.2 | 30.0 | 30.0 |
| Net Interest Cover (x) | 139.6 | NM | NM | 95.6 | 104.8 |

Source: Company, DBS HK

Interim Income Statement (RMB m)

| FY Dec | 1H2020 | 2H2020 | 1H2021 | 2H2021 | 1H2022 |
|-------------------------|---------------|---------------|---------------|---------------|---------------|
| Revenue | 77,854 | 99,119 | 90,375 | 85,541 | 83,679 |
| Cost of Goods Sold | (59,824) | (75,009) | (69,050) | (69,222) | (65,119) |
| Gross Profit | 18,030 | 24,110 | 21,325 | 16,318 | 18,560 |
| Other Oper. (Exp)/Inc | (7,798) | (11,998) | (7,347) | (6,336) | (7,096) |
| Operating Profit | 10,233 | 12,112 | 13,978 | 9,983 | 11,464 |
| Other Non Opg (Exp)/Inc | 0 | 0 | 0 | 0 | 0 |
| Associates & JV Inc | (1,165) | (850) | (494) | (607) | (43) |
| Net Interest (Exp)/Inc | 20 | 80 | 95 | (34) | 25 |
| Exceptional Gain/(Loss) | 0 | 0 | 0 | 0 | 0 |
| Pre-tax Profit | 9,088 | 11,342 | 13,579 | 9,342 | 11,446 |
| Tax | (3,277) | (4,198) | (4,396) | (3,373) | (3,802) |
| Minority Interest | (4,764) | (6,162) | (6,425) | (4,869) | (5,485) |
| Net Profit | 935 | 982 | 2,758 | 1,100 | 2,158 |
| Net profit bef Except. | 935 | 982 | 2,758 | 1,100 | 2,158 |
| Growth | | | | | |
| Revenue Gth (%) | (11.6) | 13.5 | 16.1 | (13.7) | (7.4) |
| Opg Profit Gth (%) | (15.7) | 15.4 | 36.6 | (17.6) | (18.0) |
| Net Profit Gth (%) | (68.2) | (49.5) | 195.0 | 12.0 | (21.7) |
| Margins | | | | | |
| Gross Margins (%) | 23.2 | 24.3 | 23.6 | 19.1 | 22.2 |
| Opg Profit Margins (%) | 13.1 | 12.2 | 15.5 | 11.7 | 13.7 |
| Net Profit Margins (%) | 1.2 | 1.0 | 3.1 | 1.3 | 2.6 |

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 | 52,979 | 54,572 |
| Invt in Associates & JVs | 16,104 | 14,296 | 12,529 | 12,401 | 12,211 |
| Other LT Assets | 32,719 | 33,979 | 31,106 | 29,813 | 28,364 |
| Cash & ST Invt | 49,322 | 48,146 | 40,969 | 47,240 | 53,155 |
| 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 | 192,533 | 203,287 |
| 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 | 40,635 | 44,544 |
| 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 | 55,135 | 58,290 |
| Minority Interests | 22,224 | 22,506 | 22,304 | 24,535 | 28,249 |
| Total Cap. & Liab. | 193,212 | 193,703 | 180,844 | 192,533 | 203,287 |
| Non-Cash Wkg. Capital | (41,541) | (46,684) | (31,560) | (31,735) | (32,407) |
| Net Cash/(Debt) | 25,760 | 27,689 | 18,585 | 22,856 | 30,771 |
| Debtors Turn (avg days) | 45.3 | 43.5 | 40.0 | 38.0 | 36.2 |
| Creditors Turn (avg days) | 116.7 | 134.6 | 124.2 | 114.6 | 103.6 |
| Inventory Turn (avg days) | 54.5 | 58.4 | 58.8 | 62.9 | 60.2 |
| Asset Turnover (x) | 1.0 | 0.9 | 0.9 | 1.0 | 1.1 |
| Current Ratio (x) | 0.9 | 0.9 | 0.9 | 1.0 | 1.1 |
| 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 | 37.7 | 49.2 | 53.6 |
| Z-Score (X) | NA | NA | NA | NA | NA |

Source: Company, DBS HK

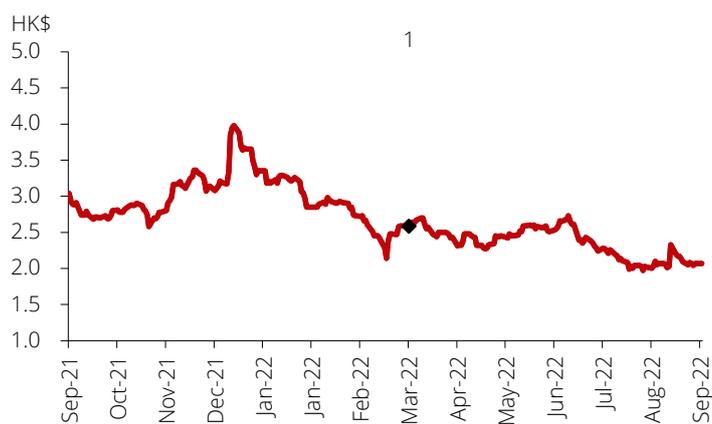
Cash Flow Statement (RMB m)

| FY Dec | 2019A | 2020A | 2021A | 2022F | 2023F |
|--------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Pre-Tax Profit | 22,155 | 20,430 | 22,920 | 24,731 | 29,309 |
| Dep. & Amort. | 7,457 | 9,064 | 9,471 | 10,887 | 11,858 |
| Tax Paid | (7,723) | (10,529) | (5,913) | (7,769) | (8,666) |
| Assoc. & JV Inc/(loss) | 314 | 2,015 | 1,101 | 28 | 90 |
| (Pft)/ Loss on disposal of FAs | 0 | 0 | 0 | 0 | 0 |
| Chg in Wkg.Cap. | 14,050 | 4,137 | (14,946) | (424) | (625) |
| Other Operating CF | (430) | 891 | 270 | 0 | 0 |
| Net Operating CF | 35,824 | 26,008 | 12,903 | 27,454 | 31,965 |
| Capital Exp.(net) | (11,417) | (11,596) | (8,445) | (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 | 0 |
| Other Investing CF | (18,016) | 245 | 675 | 100 | 100 |
| Net Investing CF | (30,005) | (11,540) | (7,771) | (11,900) | (11,900) |
| Div Paid | (10,002) | (15,115) | (12,009) | (11,282) | (12,150) |
| Chg in Gross Debt | 16,676 | (3,851) | 73 | 2,000 | (2,000) |
| Capital Issues | 0 | 0 | 0 | 0 | 0 |
| Other Financing CF | 1,023 | 2,320 | (205) | 0 | 0 |
| Net Financing CF | 7,697 | (16,646) | (12,141) | (9,282) | (14,150) |
| Currency Adjustments | 417 | 1,003 | (169) | 0 | 0 |
| Chg in Cash | 13,933 | (1,176) | (7,178) | 6,271 | 5,915 |
| Opg CFPS (RMB) | 2.72 | 2.73 | 3.47 | 3.48 | 4.07 |
| Free CFPS (RMB) | 3.05 | 1.80 | 0.56 | 1.93 | 2.49 |

Source: Company, DBS HK

BAIC Motor Corp

Target Price & Ratings History



| S.No. | Date | Closing Price | 12-mth Target Price | Rating |
|-------|-----------|---------------|---------------------|--------|
| 1: | 28-Mar-22 | HK\$2.59 | HK\$2.90 | 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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