

SAIC Motor (600104 CH)

Market sentiment is rising on A-share auto

In the first three quarters, SAIC achieved total revenue of RMB498.7bn, down 14.8% YoY while NP was RMB16.7bn, down 19.9% YoY. In 3Q20, revenue was RMB214.9bn, an increase of 2.8% YoY while NP was RMB8.3bn, an increase of 17.4% YoY. We raise our TP to RMB33.9 (based on 13.5x 2021E P/E) with an upside of 23.3%, from TP RMB21.1 based on 11.5x 2020E P/E. **Upgrade to BUY.**

- **In 3Q20, GPM was 11.0%, down 2.4ppt YoY, reflecting intensified market competition.** The expense ratio was 9.6%, down 2.3ppt YoY (tax exp -0.1ppt, S&D exp -2.0ppt, Admin exp -0.3ppt). The decrease in S&D exp ratio was mainly due to 1) implementation of the new accounting standard in the current period which moves the car loan interest subsidy from S&D expense to revenue recognition offset; and 2) the YoY decrease of logistic expense and advertising expense.
- **SAIC achieved a total investment income of RMB8.9bn in 3Q20, an increase of 19% YoY.** Among which, investment income from JVs and associates was RMB6.6bn, an increase of 2.9% YoY. SAIC Volkswagen achieved sales of 454K units in 3Q20, down 4% YoY. SAIC GM achieved sales of 395K units, an increase of 3% YoY. We believe the main factor which contributes to YoY earning growth in 3Q20 was still the investment income from financial assets.
- **The sales performance of major JVs is still mixed.** SAIC Volkswagen launched a mid-term facelift version Santana in Oct (-23% YoY in 3Q20). At the end of Oct, the first BEV based on the MEB platform, namely ID.4 was put into production. We expect both new models to drive the recovery of the Volkswagen brand. However, the Skoda brand fell 29% YoY in 3Q20, which is still expected to drag down the recovery of SAIC Volkswagen in the short-term. For SAIC-GM, the sales volume of Excelle (英朗) in Sep exceeded 30K units after the re-launch of four-cylinder version. As a result, Buick achieved a 30% YoY growth in 3Q20. The sales of high-end brand Cadillac increased by 75% YoY given the strong performance in overall luxury segment. However, due to lack of brand power, Chevrolet declined by 47% YoY, dragged down the overall performance of SAIC GM.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	902,194	843,324	782,967	809,538	838,801
YoY growth (%)	3.62%	-6.53%	-7.16%	3.39%	3.61%
Net income (RMB mn)	36,009	25,603	24,104	29,347	34,806
EPS (RMB)	3.08	2.19	2.06	2.51	2.98
YoY growth (%)	3.08	2.33	1.94	2.40	2.60
Consensus EPS(RMB)	4%	-29%	-6%	22%	19%
P/E (x)	8.44	11.86	12.60	10.35	8.73
P/B (x)	1.30	1.22	1.09	0.97	0.85
Yield (%)	7.04%	3.38%	3.79%	3.57%	4.35%
ROE (%)	15.67%	10.58%	9.12%	9.91%	10.40%
Net gearing (%)	17%	21%	19%	17%	12%

Source: Company data, Bloomberg, CMBIS estimates

BUY (Up)

Target Price **RMB33.9**
 (Previous TP **RMB21.1**)
 Up/Downside **+23.3%**
 Current Price **RMB27.5**

China Auto Sector

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Stock Data

Mkt Cap (mn)	321,295
3-mth average daily turnover (mn)	1,052.52
52-week high/low	27.54/16.61
Equity share - 600104 CH	11,683

Source: Wind

Shareholding Structure

Shanghai Automotive Industry (Group) Corporation	71.24%
Yuejin Automobile Group Corporation	3.54%
Hong Kong Central Clearing Company Limited	3.34%

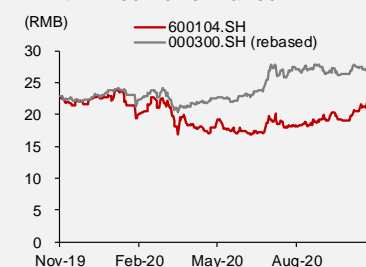
Source: Company data

Share Performance

	Absolute	Relative
1-mth	43.8%	35.0%
3-mth	51.2%	47.8%
6-mth	53.0%	22.5%

Source: Wind

12-mth Price Performance



Source: Wind

Auditor: Deloitte Touche Tohmatsu

Related Reports

1. "SAIC Motor (600104 CH) – Wait for the turning point of two GMs" – 15 Apr 2020
2. "SAIC Motor (600104 CH) – China's largest automobile group with great resilience" – 3 Oct 2019

- **The realization of certain catalysts gradually boosts market sentiment.** SAIC Volkswagen officially released its first model ID.4 based on the MEB platform, marking a milestone on Volkswagen's NEV roadmap in China market. We expect the market will re-evaluate SAIC's NEV presence after the rollout of the "Development Plan for New Energy Vehicle Industry (2021~2035)". In addition, we expect SAIC Audi project will have news coming out in 2021E. Forming the two-pillar (Audi + Cadillac) among the high-end brand will further enhance market sentiment on SAIC.
- **We raise our bottom-line forecast to RMB24.1bn in 2020E to reflect the strong 3Q20 results.** Our revised NP forecast suggests that SAIC's bottom-line will grow 55% YoY in 4Q20E. At the same time, we revised up our NP forecast to RMB29.3bn in 2021E to reflect its great cost control. We raise our TP to RMB33.9 (based on 13.5x 2021E P/E) with an upside of 23.3% from initial TP RMB21.1 (based on initial 11.5x 2020E P/E). **Upgrade to BUY.**

Earnings Revision

Figure 1: Earnings revision

(RMB mn)	New		Old		Change (%)	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	782,967	809,538	787,335	814,806	-1%	-1%
Gross profit	93,932	105,232	106,044	113,848	-11%	-8%
Net profit	24,104	29,347	21,478	26,755	12%	10%
EPS (RMB)	2.06	2.51	1.84	2.29	12%	10%
Gross margin	12.00%	13.00%	13.47%	13.97%	-1.5 ppt	-1.0 ppt
Net Margin	3.08%	3.63%	2.73%	3.28%	0.3 ppt	0.3 ppt

Source: Company data, CMBIS estimates

Figure 2: CMBIS estimates vs consensus

(RMB mn)	CMBIS		Consensus		Diff (%)	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	782,967	809,538	766,233	835,060	2%	-3%
Gross profit	93,932	105,232	99,706	114,733	-6%	-8%
Net profit	24,104	29,347	22,524	27,659	7%	6%
EPS (RMB)	2.06	2.51	1.94	2.40	6%	5%
Gross margin	12.00%	13.00%	13.01%	13.74%	-1.0 ppt	-0.7 ppt
Net Margin	3.08%	3.63%	2.94%	3.31%	0.1 ppt	0.3 ppt

Source: Bloomberg, CMBIS estimates

Figure 3: Revenue breakdown

(RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Automobile manufacturing industry	667,308	613,341	561,562	578,874	598,789
...YoY	2%	-8%	-8%	3%	3%
SAIC-Volkswagen	259,301	235,950	207,329	221,013	231,069
...YoY	1%	-9%	-12%	7%	5%
SAIC-GM	224,444	187,821	175,800	174,869	179,267
...YoY	-2%	-16%	-6%	-1%	3%
Other	183,563	189,570	178,432	182,992	188,453
...YoY	6%	3%	-6%	3%	3%
Auto-parts manufacturing industry	175,460	164,853	153,313	156,380	159,507
...YoY	11%	-6%	-7%	2%	2%
Commercial services	9,521	10,575	11,104	12,214	13,436
...YoY	-17%	11%	5%	10%	10%
Other	35,337	37,760	38,515	40,826	43,276
...YoY	14%	7%	2%	6%	6%
Financial services and others	14,568	16,794	18,473	21,244	23,794
...YoY	15%	15%	10%	15%	12%
Total	902,194	843,323	782,967	809,538	838,801
...YoY	4%	-7%	-7%	3%	4%

Source: Company data, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	902,194	843,324	782,967	809,538	838,801
Cost of sales	(773,878)	(730,588)	(689,036)	(704,306)	(721,154)
Gross profit	128,316	112,737	93,932	105,232	117,647
Taxes and levies	(7,463)	(6,610)	(5,872)	(6,476)	(6,501)
S&D expenses	(63,423)	(57,451)	(39,148)	(42,096)	(46,134)
Administrative expenses	(21,336)	(22,308)	(20,357)	(21,858)	(22,648)
R&D expenses	(15,385)	(13,394)	(13,310)	(14,899)	(14,849)
Finance expenses	(195)	(24)	(666)	(676)	(572)
Impairment losses	(3,490)	(3,507)	(3,256)	(3,367)	(3,489)
Other income	3,126	4,379	3,523	3,238	3,355
Investment income	33,126	24,901	21,091	23,174	24,218
P/L from disposal	371	1,594	1,429	1,477	1,530
FX G/L	29	30	78	81	84
Non-operating income	1,125	767	235	1,619	1,258
Non-operating expenses	(455)	(154)	(157)	(24)	(25)
Profit before income tax	54,344	40,958	37,521	45,425	53,875
Income tax expense	(5,939)	(5,669)	(4,503)	(5,224)	(6,196)
Profit for the year	48,405	35,289	33,019	40,201	47,680
Less: MI	12,395	9,686	8,915	10,854	12,874
Net Profit	36,009	25,603	24,104	29,347	34,806

Cash flow

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Net income	36,009	25,603	24,104	29,347	34,806
D&A	9,160	10,111	12,016	14,281	16,975
Change in working capital	(34,502)	13,715	(12,898)	(4,313)	4,090
Others	(1,691)	(3,157)	33,916	6,252	16,159
Net cash from operating	8,976	46,272	57,137	45,568	72,030
Capex & investments	(1,470)	(1,349)	(312)	(326)	(341)
Associated companies	(138,431)	(135,547)	(132,465)	(139,088)	(146,043)
Others	149,745	97,633	96,026	87,304	87,998
Net cash from investing	9,845	(39,264)	(36,751)	(52,110)	(58,385)
Equity raised	-	-	-	-	-
Change of Debts	36,428	29,497	(34,395)	14,518	16,879
Dividend paid	(21,381)	(10,281)	(11,522)	(10,847)	(13,206)
Others	(34,161)	(22,310)	9,524	10,455	12,145
Net cash from financing	(19,114)	(3,094)	(36,393)	14,126	15,818
Net change in cash	(293)	3,914	(16,007)	7,584	29,463
Cash at the beginning	121,611	123,771	127,827	111,819	119,403
Exchange difference	2,453	142	-	-	-
Cash at the end	123,771	127,827	111,819	119,403	148,866
Less: pledged cash	-	-	-	-	-

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	329,394	338,176	356,585	395,211	437,499
Fixed asset	69,187	83,056	99,558	119,195	142,560
Intangible assets	14,008	15,281	19,912	23,839	28,512
Interest in JV/associate	70,930	64,617	67,848	71,240	74,802
Other non-current assets	175,268	175,221	169,267	180,937	191,625
Current assets	453,376	511,158	437,220	462,862	492,825
Cash	123,771	127,827	111,819	119,403	148,866
Account receivable	61,090	58,988	50,514	50,596	49,341
Inventory	58,943	54,399	46,758	50,512	50,291
Other current assets	209,572	269,945	228,128	242,350	244,326
Current liabilities	414,323	462,803	362,398	371,609	380,219
Borrowings	140,385	154,582	124,496	121,431	125,820
Account payables	154,827	170,048	132,051	140,792	141,120
Other payables	119,111	138,173	105,852	109,386	113,278
Tax payables	-	-	-	-	-
Non-current liabilities	83,726	85,690	94,529	106,849	120,060
Borrowings	32,533	35,299	50,974	61,028	72,991
Provisions	15,266	13,997	12,783	13,450	13,816
Deferred income tax	2,267	3,112	2,544	2,550	2,684
Others	33,661	33,283	28,228	29,821	30,570
Total net assets	284,720	300,840	336,877	379,614	430,045
Minority Interest	50,352	51,138	58,251	65,771	74,435
Shareholders' equity	234,369	249,702	278,626	313,843	355,610

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Profit mix (%)					
Automobile	74%	73%	72%	72%	71%
Auto-parts	19%	20%	20%	19%	19%
Commercial services	1%	1%	1%	2%	2%
Labor services	4%	4%	5%	5%	5%
Financial services	2%	2%	2%	3%	3%
Total	100%	100%	100%	100%	100%
P&L ratios (%)					
Gross profit margin	14%	13%	12%	13%	14%
Pre-tax margin	6%	5%	5%	6%	6%
Net margin	4%	3%	3%	4%	4%
Effective tax rate	11%	14%	12%	12%	12%
Balance sheet ratios					
Current ratio (x)	1.09	1.10	1.21	1.25	1.30
Quick ratio (x)	0.51	0.51	0.59	0.59	0.65
Cash ratio (x)	0.30	0.28	0.31	0.32	0.39
Debtors turnover days	25	26	24	23	21
Total debt / total equity ratio	175%	182%	136%	126%	116%
Net debt / equity ratio (%)	17%	21%	17%	17%	12%
Returns (%)					
ROE	16%	11%	9%	10%	10%
ROA	7%	5%	5%	6%	6%
Per share					
EPS (RMB)	3.08	2.19	2.06	2.51	2.98
DPS (RMB)	1.83	0.88	0.99	0.93	1.13
BVPS (RMB)	19.38	20.06	21.37	23.85	26.86

Source: Company data, CMBIS estimates

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