

Grand Baoxin (1293 HK)

1H19 performance updates

KEY HIGHLIGHT: On 23 Aug 2019, Grand Baoxin announced its 2019 interim results. In 1H19, its revenue achieved RMB17.3bn in 1H19, an increase of 2.16% YoY. Profit attributable to the equity holders of company was RMB3,363mn, a decline of 11.70%. EPS was RMB0.11 which is in line with the market estimate.

- In 1H19, all three business segments achieved positive growth.** Specifically, revenue from sales of motor vehicles increased by 1.3% YoY to RMB15,038mn, representing 86.68% of total revenue. Revenue from after-sales services increased by 8.15% YoY to RMB2,289mn, representing 13.19% of total revenue. Revenue from finance leasing services increased by 2.50% YoY to RMB21mn, representing 0.12% of total revenue.
- In 1H19, gross profit from sales of motor vehicles decreased by 0.47% YoY to RMB297mn, representing 22% of total gross profit.** Gross profit from after-sales services increased by 4.59% YoY to RMB1,042mn, representing 77% of total gross profit. Gross profit from finance leasing services increased by 1.49% YoY to RMB21mn, representing 1% of total revenue.
- Income tax hike deteriorates the bottom line profit.** Given a well-diversified brand mixture and value-added service growth, the EBT in 1H19 grew by 6.87% to RMB531mn. However, the comprehensive income tax rate increased from 27.12% in 1H18 to 40.00% in 1H19, which led to a drop of 12.03% in bottom line. Management team states that the income tax rate will likely to remain at 38% to 40% range in short term.
- Jaguar & Land Rover is getting back on track.** In 1H19, Jaguar & Land Rover sales dropped by 42.9%. However, the decline was consistent with the overall strategy of Jaguar & Land Rover (China). As the brand went through the painful structural adjustment, Jaguar & Land Rover is coming back on track at fast speed. In Jul, Jaguar & Land Rover sales volume achieved a 40% YoY growth rate after its strategic adjustment. Following the new generation of Range Rover Evoque, Jaguar & Land Rover will launch a new Jaguar XEL, a new generation of Land Rover Discovery, and a new Defenders between 2H19 and 1H20 which will boost the sales volume.
- Grand Baoxin is currently trading at 4.5x P/E, 25% below its peers average of 6.1x.** It also trades under one standard deviation from its historical mean of 6.5x P/E.

Earnings Summary

(YE 31 Dec)	FY16A	FY17A	FY18A
Revenue (RMB mn)	25,709	20,225	22,059
YoY growth (%)	8.13%	34.42%	6.27%
Net income (RMB mn)	414	808	566
EPS (RMB)	0.16	0.30	0.20
YoY growth (%)	78%	88%	-33%
P/E (x)	7.87	4.19	6.29
P/B (x)	0.64	0.49	0.51
Yield (%)	0.00%	6.71%	0.00%
ROE (%)	8.34%	13.56%	8.10%
Net gearing (%)	214%	180%	210%

Source: Company data, CMBIS estimates

NOT RATED

Current Price

HK\$1.43

China Auto Sector

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Stock Data

Mkt Cap (HK\$ mn)	4,058
Avg 3 mths t/o (HK\$ mn)	24.29
52w High/Low (HK\$)	3.56/ 1.33
Total Issued Shares (mn)	2,837.3

Source: Bloomberg

Shareholding Structure

China Grand Automotive Services (Hong Kong) Limited	67.71%
Yang Aihua	7.73%

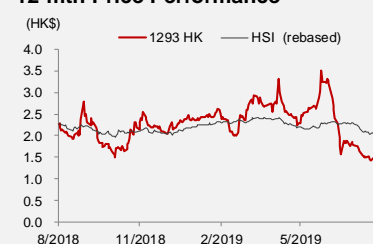
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-16.6%	-8.9%
3-mth	-33.8%	-30.8%
6-mth	-41.9%	-35.8%

Source: Bloomberg

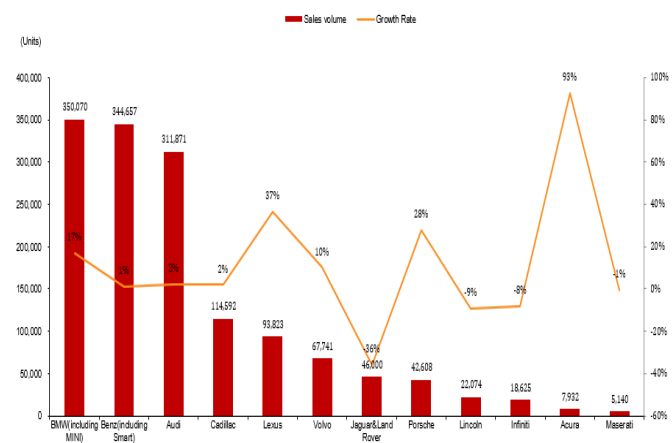
12-mth Price Performance



Source: Bloomberg

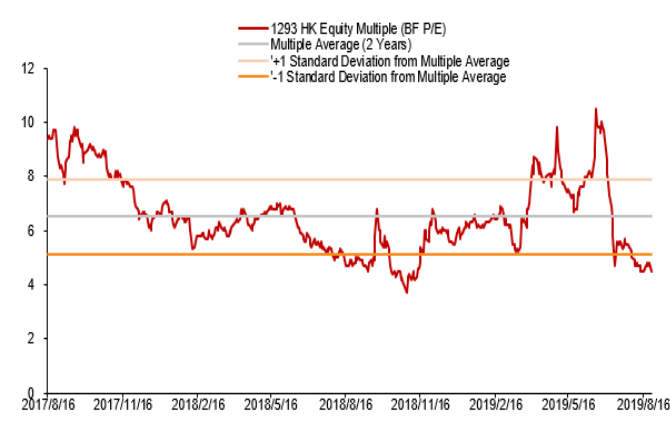
Auditor: Ernst & Young

Figure 1: Sales of luxury automobile brands in 1H19



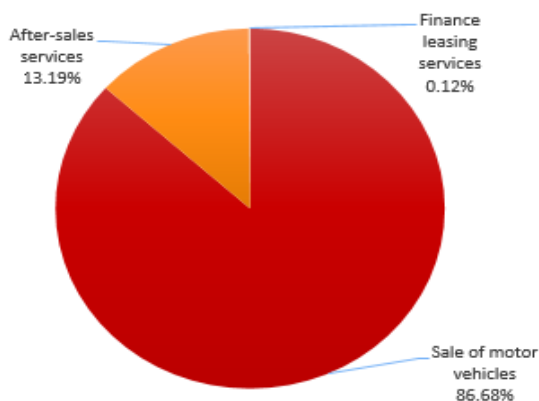
Source: Company data, CMBIS

Figure 2: P/E Band



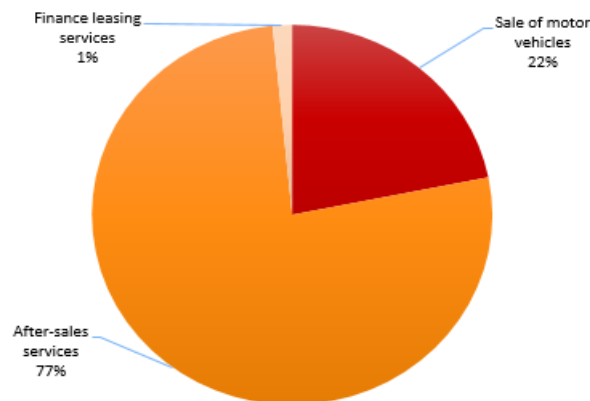
Source: Bloomberg, CMBIS

Figure 3: Sales mix in 1H19



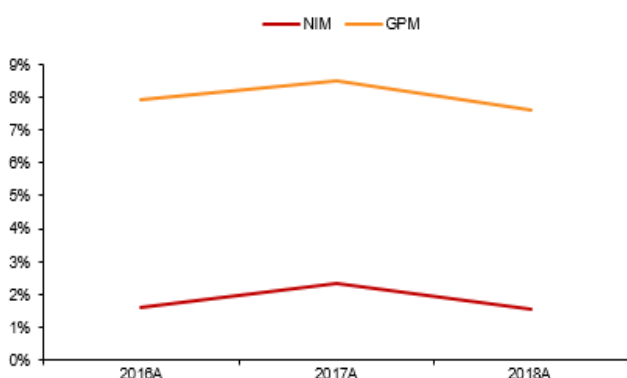
Source: Company data, CMBIS

Figure 4: Gross profit mix in 1H19



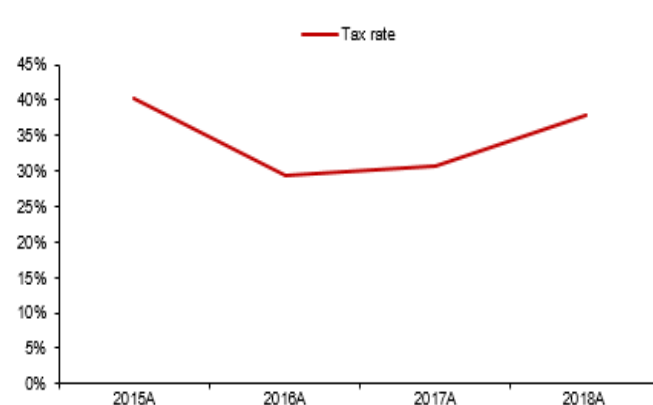
Source: Company data, CMBIS

Figure 5: GPM vs NIM



Source: Company data, CMBIS

Figure 6: Income tax rate



Source: Company data, CMBIS

Financial Summary

Income statement				Cash flow			
YE Dec 31 (RMB mn)	FY16A	FY17A	FY18A	YE Dec 31 (RMB mn)	FY16A	FY17A	FY18A
Revenue	25,709	34,558	36,724	Net income	414	808	566
Cost of sales	(23,675)	(31,622)	(33,939)	D&A	379	425	422
Gross profit	2,034	2,936	2,784	Change in working capital	1,466	1,087	908
Selling and distribution expenses	(879)	(1,091)	(1,247)	Others	(906)	(1,403)	(1,189)
Administrative expenses	(608)	(557)	(739)	Net cash from operating	1,354	917	707
Net impairment losses on financial assets	0	1	2	Capex & investments	(271)	(353)	(217)
Other income	524	601	834	Associated companies	(48)	(653)	(743)
Other expenses	0	1	2	Others	166	(949)	(89)
Finance expenses	(487)	(731)	(707)	Net cash from investing	(153)	(1,955)	(1,049)
Share of profits and losses	6	1	2	Equity raised	-	12	-
Associates	(0)	5	(15)	Change of Debts	320	1,233	(140)
Profit before income tax	589	1,164	913	Dividend paid	-	-	(239)
Income tax expense	(173)	(357)	(346)	Others	(36)	(710)	103
Profit for the year	417	806	567	Net cash from financing	284	535	(276)
Profit attributable to:				Net change in cash	1,485	(503)	(618)
Owners of the Company	414	808	566	Cash at the beginning	2,162	3,722	-
Non-controlling interests	3	(2)	1	Other adjustments	75	(50)	3,159
Profit for the year	417	806	567	Cash at the end	3,722	3,169	2,541
				Less: pledged cash	2,143	3,045	3,548

Balance sheet				Key ratios			
YE Dec 31 (RMB mn)	FY16A	FY17A	FY18A	YE Dec 31	FY16A	FY17A	FY18A
Non-current assets	5,963	7,187	8,097	Sales mix			
Fixed asset	3,750	4,005	3,964	New automobile sales	88.94%	88.88%	87.69%
Intangible assets	990	1,178	1,523	After-sales	11.04%	10.94%	12.21%
Interest in joint	95	101	132	Finance services	0.02%	0.18%	0.09%
Other non-current assets	1,128	1,902	2,479	Total	100%	100%	100%
Current assets	15,841	18,555	20,033	P&L ratios (%)			
Cash	5,973	6,260	6,155	Gross profit margin	8%	8%	8%
Account receivable	652	505	558	Pre-tax margin	2%	3%	2%
Inventory	2,936	4,110	4,127	Net margin	2%	2%	2%
Other current assets	6,279	7,680	9,193	Effective tax rate	29%	31%	38%
Current liabilities	10,918	11,465	14,150	Balance sheet ratios			
Borrowings	4,801	3,270	3,842	Current ratio (x)	1.45	1.62	1.42
Account payables	4,625	6,277	7,519	Quick ratio (x)	0.61	0.60	0.49
Other payables	1,215	1,494	2,311	Cash ratio (x)	0.55	0.55	0.43
Tax payables	277	424	477	Debtors turnover days	9.26	5.33	5.55
Non-current liabilities	5,844	7,328	6,880	Debt / equity ratio	278.34%	332.41%	270.43%
Borrowings	2,752	5,702	5,828	Net debt / equity ratio	213.95%	180.35%	209.55%
Provisions	-	1	2	Returns (%)			
Deferred income tax	358	421	535	ROE	8%	14%	8%
Others	2,734	1,205	515	ROA	5%	8%	6%
Minority Interest	40	39	35	Per share			
Total net assets	5,003	6,910	7,064	EPS (RMB)	0.16	0.30	0.20
Shareholders' equity	5,003	6,910	7,064	DPS (RMB)	-	0.08	-
				BVPS (RMB)	1.96	2.55	2.49

Source: Company data, CMBIS

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