

Dongfeng Motor (489 HK)

Strong 3Q results beat estimates

DFG released its unaudited 3Q20 results. In 3Q20, NP achieved RMB4.2bn, an increase of 22% YoY / 30% QoQ. Given the strong 3Q results, we raised our 2020E bottom-line forecast to RMB8.4bn. Therefore, we raised our TP to HK\$12.0 (based on new 7.0x 2021E P/E) with an upside of 28.2% from TP HK\$7.1 (based on 4.3x 2021E P/E). Reiterate BUY.

■ **DFG announced its Oct sales number.** Accumulative sales volume from Jan to Oct fell 5.5% YoY. Among them, from Jul to Oct, CV sales increased by 34.4% YoY while PV sales increased by 5.5% YoY. We expect that CV will continue to grow in the remaining 2020E driven by strong replacement cycle and infrastructure investment. We forecast that CV sales will increase by 22% YoY in 2H20E. In terms of PV, we expect the strong demand of Dongfeng Honda and Dongfeng Nissan will support the recovery of its PV segment. We estimate PV sales will grow at 2% YoY in 2H20E.

■ **Nissan is expected to expand production in China by 30%.** DFL, a joint venture between DFG and Nissan, has strong demand even in the trough of the overall auto market. In the past three years, the capacity utilization rate has been consistently over 100% (101% in 2017 / 104% in 2018 / 102% in 2019). Regarding Nissan Motor Co., Ltd, in FY2019, its sales fell 10.3% to 534K units in the Japanese market / fell 14.6% to 1.62mn units in the North American market / fell 19.1% to 521K units in the European market. However, its sales in China fell only 1.1% to 1.5mn units, making China the single best-performing market around the world. We expect that Nissan will continue to invest resources in China and introduce new models including Nissan Ariya in the short-term. We believe that the sales and performance of DFL will continue to improve with the expansion of production capacity.

■ **Market value management is gradually realized.** In our last report "Market value management as a catalyst", we mentioned that the Company will take market value management measures to lift the valuation before listed on ChiNext. On 11 Nov, DFG announced that it will maintain the payout ratio of no less than 40% within three years after the issuance and listing of A-shares which attract more long-term investors such as insurance companies. We noticed that the average dividend payout ratio of DFG in 2017-2019 was 22%. In the meanwhile, DFG launched high-end brand VOYAH and announced Yuan+ plan to revive DPCA. We believe all the measures will rebuild the Company's image among investors and lift its valuation multiple.

Earnings Summary

| (YE 31 Dec) | FY18A | FY19A | FY20E | FY21E | FY22E |
|---------------------|----------|---------|---------|---------|---------|
| Revenue (RMB mn) | 104,543 | 101,087 | 108,207 | 123,443 | 137,287 |
| YoY growth (%) | -17.02% | -3.31% | 7.04% | 14.08% | 11.22% |
| Net income (RMB mn) | 12,979 | 12,858 | 8,447 | 13,258 | 14,463 |
| EPS (RMB) | 1.51 | 1.49 | 0.98 | 1.54 | 1.68 |
| YoY growth (%) | -8% | -1% | -34% | 57% | 9% |
| Consensus EPS(RMB) | NA | NA | 1.09 | 1.40 | 1.49 |
| P/E (x) | 4.82 | 4.86 | 7.40 | 4.71 | 4.32 |
| P/B (x) | 0.53 | 0.49 | 0.47 | 0.44 | 0.41 |
| Yield (%) | 4.83% | 4.83% | 4.73% | 5.30% | 5.79% |
| ROE (%) | 11.44% | 10.45% | 6.45% | 9.56% | 9.73% |
| Net gearing (%) | net cash | 11% | 12% | 9% | 5% |

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price HK\$12.0
(Previous TP) HK\$7.1
Up/Downside +48.5%
Current Price HK\$8.1

China Auto Sector

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Stock Data

| | |
|--------------------------|-----------|
| Mkt Cap (HK\$ mn) | 69,446 |
| Avg 3 mths t/o (HK\$ mn) | 133.88 |
| 52w High/Low (HK\$) | 8.94/4.05 |
| Total Issued Shares (mn) | 2,856 |

Source: Bloomberg

Shareholding Structure

| | |
|-------------------------|-------|
| Brown Brothers Harriman | 8.99% |
| Reynolds Margaret (Meg) | 8.24% |
| Pandanus Associates | 7.99% |

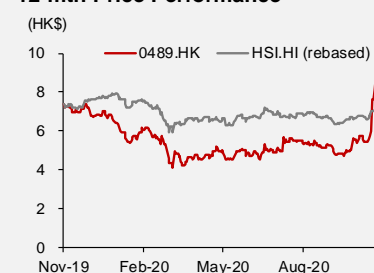
Source: HKEx

Share Performance

| | Absolute | Relative |
|-------|----------|----------|
| 1-mth | 45.2% | 34.1% |
| 3-mth | 46.6% | 40.6% |
| 6-mth | 63.7% | 47.5% |

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PricewaterhouseCoopers
Zhong Tian

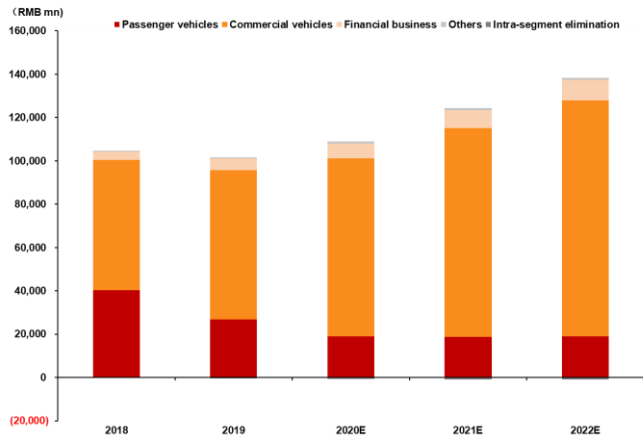
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1. "Dongfeng Motor (489 HK) – Market value management as a catalyst" – 31 Aug 2020
2. "Dongfeng Motor (489 HK) – French brands drags bottom-line performance" – 1 Apr 2020
3. "Dongfeng Motor (489 HK) – Ambiguous future with PSA" – 3 Oct 2019

- **We raised our bottom-line forecast to RMB8.4bn in 2020E to reflect the strong 3Q20 results and revised sales volume forecast.** Our revised NP forecast suggests that DFG's bottom-line will grow 34% YoY in 4Q20E. We believe that events such as 1) the realization of market value management measures; 2) the listing on ChiNext within 2020E; and 3) the launch of the high-end brand VOYAH, will raise DFG's valuation multiple. We raised our TP to HK\$12.0 (based on new 7.0x 2021E P/E) with an upside of 28.2% from TP HK\$7.1 (based on 4.3x 2021E P/E). Reiterate BUY.

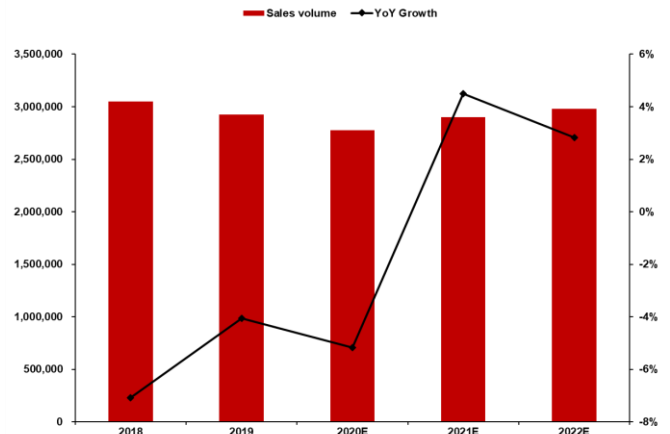
Focus Charts

Figure 1: Revenue composition



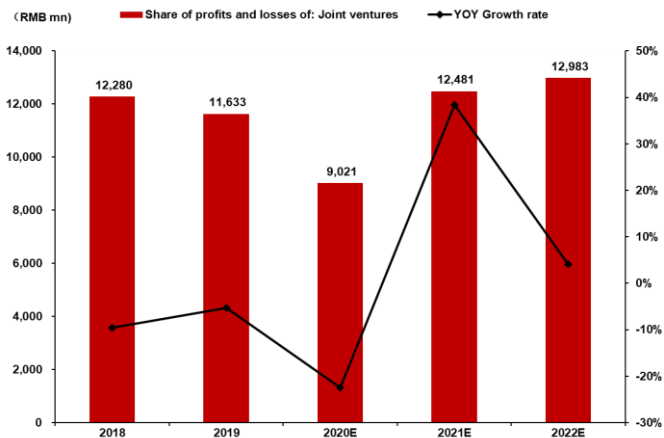
Source: Company data, CMBIS estimates

Figure 2: Sales volume forecast



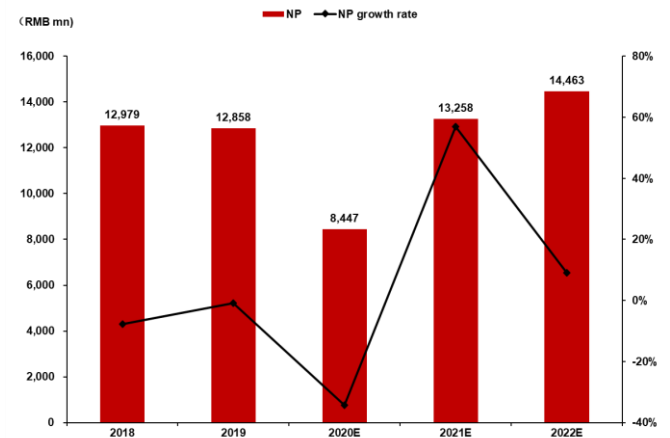
Source: Company data, CMBIS estimates

Figure 3: PL from JVs



Source: Company data, CMBIS estimates

Figure 4: Bottom-line forecast



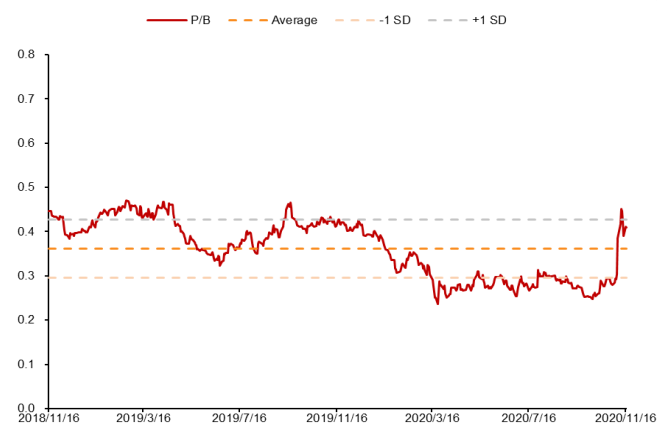
Source: Company data, CMBIS estimates

Figure 5: P/E Chart



Source: Bloomberg, CMBIS

Figure 6: P/B Chart



Source: Bloomberg, CMBIS

Earnings Revision

Figure 7: Earnings revision

| (RMB mn) | New | | Old | | Change (%) | |
|--------------|---------|---------|---------|---------|------------|---------|
| | FY20E | FY21E | FY20E | FY21E | FY20E | FY21E |
| Revenue | 108,207 | 123,443 | 103,677 | 121,640 | 4% | 1% |
| Gross profit | 14,175 | 16,788 | 13,530 | 16,543 | 5% | 1% |
| Net profit | 8,447 | 13,258 | 8,052 | 12,871 | 5% | 3% |
| EPS (RMB) | 0.98 | 1.54 | 0.93 | 1.49 | 5% | 3% |
| Gross margin | 13.10% | 13.60% | 13.05% | 13.60% | 0.1 ppt | 0.0 ppt |
| Net Margin | 7.81% | 10.74% | 7.77% | 10.58% | 0.0 ppt | 0.2 ppt |

Source: CMBIS estimates

Figure 8: CMBIS estimates vs consensus

| (RMB mn) | CMBIS | | Consensus | | Diff (%) | |
|--------------|---------|---------|-----------|---------|----------|----------|
| | FY20E | FY21E | FY20E | FY21E | FY20E | FY21E |
| Revenue | 108,207 | 123,443 | 100,343 | 105,171 | 8% | 17% |
| Gross profit | 14,175 | 16,788 | 13,469 | 14,437 | 5% | 16% |
| Net profit | 8,447 | 13,258 | 9,412 | 12,223 | -10% | 8% |
| EPS (RMB) | 0.98 | 1.54 | 1.09 | 1.40 | -10% | 10% |
| Gross margin | 13.10% | 13.60% | 13.42% | 13.73% | -0.3 ppt | -0.1 ppt |
| Net Margin | 7.81% | 10.74% | 9.38% | 11.62% | -1.6 ppt | -0.9 ppt |

Source: Bloomberg, CMBIS estimates

Figure 9: Revenue breakdown

| (RMB mn) | FY18A | FY19A | FY20E | FY21E | FY22E |
|---------------------------|---------|---------|---------|---------|---------|
| Passenger vehicles | 40,239 | 26,738 | 19,087 | 18,802 | 18,874 |
| ...YoY | -35% | -34% | -29% | -1% | 0% |
| Commercial vehicles | 60,136 | 68,893 | 82,107 | 96,333 | 109,024 |
| ...YoY | -1% | 15% | 19% | 17% | 13% |
| Financial business | 3,876 | 5,387 | 6,895 | 8,274 | 9,516 |
| ...YoY | 27% | 39% | 28% | 20% | 15% |
| Others | 508 | 565 | 763 | 839 | 881 |
| ...YoY | -6% | 11% | 35% | 10% | 5% |
| Intra-segment elimination | (216) | (496) | (645) | (806) | (1,008) |
| ...YoY | 69% | 130% | 30% | 25% | 25% |
| Total | 104,543 | 101,087 | 108,207 | 123,443 | 137,287 |
| ...YoY | -17% | -3% | 7% | 14% | 11% |

Source: Company data, CMBIS estimates

Figure 10: P&L forecast

| (RMB mn) | FY18A | FY19A | FY20E | FY21E | FY22E |
|---------------|----------|----------|----------|-----------|-----------|
| Revenue | 104,543 | 101,087 | 108,207 | 123,443 | 137,287 |
| ...YoY | -17.02% | -3.31% | 7.04% | 14.08% | 11.22% |
| Cost of sales | (91,128) | (87,596) | (94,032) | (106,655) | (118,204) |
| Gross profit | 13,415 | 13,491 | 14,175 | 16,788 | 19,083 |
| GPM (%) | 12.83% | 13.35% | 13.10% | 13.60% | 13.90% |
| ...YoY | -17.52% | 0.57% | 5.07% | 18.43% | 13.67% |
| Selling Exp | (6,342) | (4,349) | (4,220) | (5,185) | (5,903) |
| ...% of rev | -6.07% | -4.30% | -3.90% | -4.20% | -4.30% |
| Admin Exp | (4,506) | (5,076) | (5,086) | (5,802) | (6,453) |
| ...% of rev | -4.31% | -5.02% | -4.70% | -4.70% | -4.70% |
| Net profit | 12,979 | 12,858 | 8,447 | 13,258 | 14,463 |
| NPM (%) | 12.41% | 12.72% | 7.81% | 10.74% | 10.53% |
| ...YoY | -7.70% | -0.93% | -34.30% | 56.96% | 9.08% |

Source: Company data, CMBIS estimates

Financial Summary

Income statement

| YE 31 Dec (RMB mn) | FY18A | FY19A | FY20E | FY21E | FY22E |
|---------------------------------|----------------|----------------|----------------|----------------|----------------|
| Revenue | 104,543 | 101,087 | 108,207 | 123,443 | 137,287 |
| Passenger vehicles | 40,239 | 26,738 | 19,087 | 18,802 | 18,874 |
| Commercial vehicles | 60,136 | 68,893 | 82,107 | 96,333 | 109,024 |
| Financial business | 3,876 | 5,387 | 6,895 | 8,274 | 9,516 |
| Others | 508 | 565 | 763 | 839 | 881 |
| Intra-segment | (216) | (496) | (645) | (806) | (1,008) |
| Cost of sales | (91,128) | (87,596) | (94,032) | (106,655) | (118,204) |
| Gross profit | 13,415 | 13,491 | 14,175 | 16,788 | 19,083 |
| S&D expenses | (6,342) | (4,349) | (4,220) | (5,185) | (5,903) |
| Admin expenses | (4,506) | (5,076) | (5,086) | (5,802) | (6,453) |
| Credit/asset impairment | (1,006) | (1,163) | (1,360) | (1,209) | (1,209) |
| Other income | 3,164 | 2,231 | 2,813 | 3,086 | 3,432 |
| Other expenses | (5,683) | (5,500) | (7,791) | (7,653) | (8,512) |
| Finance expenses | (265) | (575) | (1,124) | (979) | (937) |
| PL from JVs | 12,280 | 11,633 | 9,021 | 12,481 | 12,983 |
| PL from Associates | 3,182 | 3,913 | 2,817 | 3,099 | 3,471 |
| Profit before income tax | 14,239 | 14,605 | 9,247 | 14,627 | 15,956 |
| Income tax expense | (1,661) | (1,759) | (1,202) | (1,755) | (1,915) |
| Profit for the year | 12,578 | 12,846 | 8,045 | 12,872 | 14,041 |
| Less: MI | (401) | (12) | (402) | (386) | (421) |
| NP | 12,979 | 12,858 | 8,447 | 13,258 | 14,463 |

Cash flow

| YE 31 Dec (RMB mn) | FY18A | FY19A | FY20E | FY21E | FY22E |
|--------------------------------|-----------------|-----------------|----------------|----------------|----------------|
| Net income | 12,979 | 12,858 | 8,447 | 13,258 | 14,463 |
| D&A | 2,455 | 2,677 | 3,026 | 3,250 | 3,547 |
| Change in working capital | 6,098 | (13,794) | 1,409 | (17,589) | (14,497) |
| Others | (43,781) | (13,296) | (2,522) | 16,386 | 15,398 |
| Net cash from operating | (22,249) | (11,555) | 10,361 | 15,306 | 18,910 |
| Capex & investments | (4,395) | (5,078) | (4,741) | (4,224) | (5,025) |
| Associated companies | (3,068) | (4,031) | (4,343) | (3,908) | (4,495) |
| Others | 20,143 | 10,581 | - | - | - |
| Net cash from investing | 12,680 | 1,472 | (9,084) | (8,132) | (9,519) |
| Equity raised | - | - | - | - | - |
| Change of debts | 9,374 | 19,258 | 3,439 | 83 | (2,093) |
| Dividend paid | (3,016) | (3,016) | (2,956) | (3,315) | (3,616) |
| Others | (3,455) | (5,001) | - | - | - |
| Net cash from financing | 2,903 | 11,241 | 483 | (3,231) | (5,708) |
| Net change in cash | (6,666) | 1,158 | 1,760 | 3,942 | 3,683 |
| Cash at the beginning | 44,058 | 30,904 | 30,085 | 31,845 | 35,787 |
| Exchange difference | (6,488) | (1,977) | - | - | - |
| Cash at the end | 30,904 | 30,085 | 31,845 | 35,787 | 39,470 |
| Less: pledged cash | 3,653 | 3,317 | 3,317 | 3,317 | 3,317 |

Balance sheet

| YE 31 Dec (RMB mn) | FY18A | FY19A | FY20E | FY21E | FY22E |
|--------------------------------|----------------|----------------|----------------|----------------|----------------|
| Non-current assets | 111,294 | 129,896 | 143,412 | 157,650 | 171,473 |
| Fixed asset | 15,835 | 17,309 | 17,929 | 18,024 | 18,610 |
| Intangible assets | 4,809 | 5,076 | 5,436 | 5,571 | 5,808 |
| Interest in JV/associate | 62,329 | 62,140 | 65,251 | 68,897 | 73,293 |
| Other non-current assets | 28,321 | 45,371 | 54,795 | 65,159 | 73,763 |
| Current assets | 115,223 | 140,104 | 148,056 | 153,416 | 159,273 |
| Cash | 30,904 | 30,085 | 31,845 | 35,787 | 39,470 |
| Account receivable | 22,522 | 12,129 | 12,538 | 13,007 | 14,241 |
| Inventory | 10,710 | 12,191 | 14,466 | 14,813 | 15,761 |
| Other current assets | 51,087 | 85,699 | 89,207 | 89,810 | 89,801 |
| Current liabilities | 84,457 | 104,182 | 115,261 | 124,880 | 135,249 |
| Borrowings | 15,424 | 19,413 | 37,900 | 37,920 | 40,506 |
| Account payables | 37,140 | 46,589 | 38,746 | 46,138 | 52,116 |
| Other payables | 31,263 | 37,172 | 37,950 | 39,846 | 41,640 |
| Tax payables | 630 | 1,008 | 665 | 977 | 987 |
| Non-current liabilities | 17,135 | 33,850 | 35,720 | 36,093 | 34,159 |
| Borrowings | 10,729 | 25,998 | 28,881 | 27,828 | 25,149 |
| Provisions | 659 | 750 | 725 | 827 | 920 |
| Deferred income tax | 2,086 | 2,275 | 1,480 | 2,253 | 2,424 |
| Others | 3,661 | 4,827 | 4,634 | 5,185 | 5,666 |
| Shareholders' equity | 118,356 | 127,781 | 134,052 | 143,219 | 153,949 |
| Minority Interest | 6,569 | 6,187 | 6,434 | 6,874 | 7,390 |
| Total net assets | 124,925 | 131,968 | 140,486 | 150,093 | 161,339 |

Key ratios

| YE 31 Dec (RMB mn) | FY18A | FY19A | FY20E | FY21E | FY22E |
|--------------------------------------|-------------|-------------|-------------|-------------|-------------|
| Sales mix (%) | | | | | |
| Passenger vehicles | 38% | 26% | 18% | 15% | 14% |
| Commercial vehicles | 58% | 68% | 76% | 78% | 79% |
| Financial business | 4% | 5% | 6% | 7% | 7% |
| Others | 0% | 1% | 1% | 1% | 1% |
| Intra-segment elimination | 0% | 0% | -1% | -1% | -1% |
| Total | 100% | 100% | 100% | 100% | 100% |
| P&L ratios (%) | | | | | |
| Gross profit margin | 13% | 13% | 13% | 14% | 14% |
| Pre-tax margin | 14% | 14% | 9% | 12% | 12% |
| Net margin | 12% | 13% | 8% | 11% | 11% |
| Effective tax rate | 12% | 12% | 13% | 12% | 12% |
| Balance sheet ratios | | | | | |
| Current ratio (x) | 1.36 | 1.34 | 1.28 | 1.23 | 1.18 |
| Quick ratio (x) | 0.66 | 0.50 | 0.49 | 0.48 | 0.48 |
| Cash ratio (x) | 0.37 | 0.29 | 0.28 | 0.29 | 0.29 |
| AP days | 79 | 44 | 49 | 45 | 44 |
| AR days | 149 | 194 | 150 | 158 | 161 |
| Total debt / total equity ratio (%) | 21% | 34% | 48% | 44% | 41% |
| Net debt / equity ratio (%) net cash | | 11% | 12% | 9% | 5% |
| Returns (%) | | | | | |
| ROE | 11% | 10% | 6% | 10% | 10% |
| ROA | 7% | 6% | 4% | 5% | 5% |
| Per share | | | | | |
| EPS (RMB) | 1.51 | 1.49 | 0.98 | 1.54 | 1.68 |
| DPS (RMB) | 0.35 | 0.35 | 0.34 | 0.38 | 0.42 |
| BVPS (RMB) | 13.74 | 14.83 | 15.56 | 16.62 | 17.87 |

Source: Company data, CMBIS estimates

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| NOT RATED | : Stock is not rated by CMBIS |

| | |
|-----------------------|---|
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