

Dongfeng Motor (489 HK)

1H19 performance updates

KEY HIGHLIGHT: On 29 Aug 2019, Dongfeng Motor Group announced its 2019 interim results. Revenue achieved RMB48.4bn in 1H19, a decline of 16% YoY, in line with the consensus estimate. Profit attributable to the equity holders of company was RMB8.5bn, an increase of 5%. EPS has increased by 5.34% to RMB0.99.

- **In 1H19, total sales volume was 1.37mn units which include all sales of JV brands, a decline of 9% YoY.** Specifically, Dongfeng Honda sales volume increase by 13.34% YoY and Dongfeng CV sales volume increase by 1.67% YoY. Other brands have declined at a different magnitude ranging from 1% to 75%. Considering the overall market condition, the company adjusted its sales target from 3.08mn units down to 2.98mn units. The company has completed 46% of revised sales target.
- **In 1H19, gross profit margin improved by 2.19 ppt YoY to 16.09% from 13.09% in 1H18.** The proportion of core profit decreased to 30% in 1H19 compared with 35% in 1H18 whereas the proportion of investment profit increased to 87% in 1H19 compared with 85% in 1H18 due to two relative good performance of its two Japanese JV brands. Therefore, we observe a 5% increase in the bottom line.
- **In the first half of the year, the sales of commercial vehicles were approximately 240,500 units, representing an increase of 3.9% YoY, which was 8.0 percentage points higher than the industry.** The sales revenue of passenger vehicles amounted to RMB 13,563mn, representing a decrease of 45% YoY whereas the sales revenue of commercial vehicles amounted to RMB32,364mn representing an increase of 3% YoY. Commercial vehicle segment now accounts for 66.8% of total revenue. The finance service also increased by 33% YoY to RMB2,484mn.
- **Dongfeng PSA will optimize its capacity arrangement.** Management team confirms that Dongfeng PSA will consolidate its production capacity in Wuhan. Although the management team did not speak about the specific plan, two points were stressed during the conference call 1) Dongfeng PSA Wuhan 1 plant is currently located in the city center and will subject to the effect of potential urban planning. 2) Dongfeng PSA Wuhan 3 plant, which was built in 2014, has advanced equipment and adequate space and production capacity. We expect Dongfeng PSA will get back on track after the structuring.

Earnings Summary

| (YE 31 Dec) | FY17A | FY18A | FY19E | FY20E | FY21E |
|---------------------|---------|---------|---------|--------|--------|
| Revenue (RMB mn) | 125,980 | 104,543 | 93,564 | 94,130 | 93,412 |
| YoY growth (%) | 2.81% | -17.02% | -10.50% | 0.60% | -0.76% |
| Net income (RMB mn) | 14,061 | 12,979 | 14,513 | 16,361 | 18,557 |
| EPS (RMB) | 1.63 | 1.51 | 1.68 | 1.90 | 2.15 |
| YoY growth (%) | 5% | -8% | 12% | 13% | 13% |
| P/E (x) | 3.86 | 4.18 | 3.74 | 3.32 | 2.93 |
| P/B (x) | 0.50 | 0.46 | 0.42 | 0.38 | 0.35 |
| Yield (%) | 5.24% | 5.56% | 6.68% | 7.53% | 8.55% |
| ROE (%) | 13.70% | 11.44% | 11.72% | 12.09% | 12.53% |
| Net gearing (%) | 51% | 46% | 27% | 25% | 24% |

Source: Company data, CMBIS estimates

NOT RATED

Current Price

HK\$7.16

China Auto Sector

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Stock Data

| | |
|--------------------------|------------|
| Mkt Cap (HK\$ mn) | 61,691 |
| Avg 3 mths t/o (HK\$ mn) | 97.37 |
| 52w High/Low (HK\$) | 9.07/ 5.87 |
| Total Issued Shares (mn) | 8,616.1 |

Source: Bloomberg

Shareholding Structure

| | |
|----------------------------|--------|
| Dongfeng Motor Corporation | 66.89% |
| STANDARD CHARTERED | 2.81% |
| REYNOLDS MARGARET (MEG) | 2.41% |

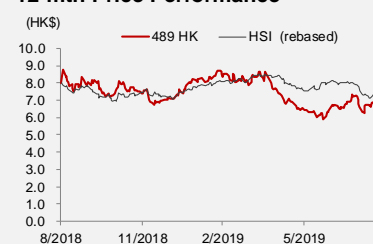
Source: HKEx

Share Performance

| | Absolute | Relative |
|-------|----------|----------|
| 1-mth | 2.2% | 13.3% |
| 3-mth | 13.1% | 20.9% |
| 6-mth | -12.0% | -1.6% |

Source: Bloomberg

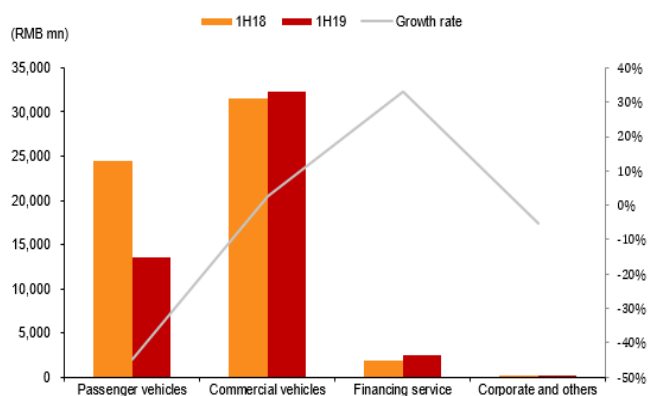
12-mth Price Performance



Source: Bloomberg

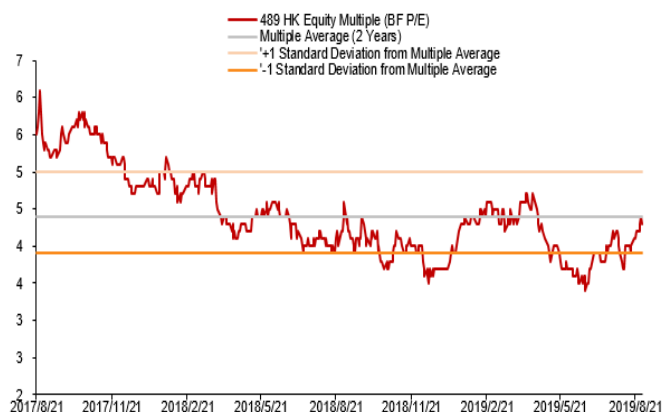
**Auditor: PricewaterhouseCoopers
Zhong Tian**

Figure 1: Sales breakdown



Source: Company, CMBIS

Figure 2: PE Band



Source: Bloomberg, CMBIS

Financial Summary

Income statement

| YE Dec 31 (RMB mn) | FY17A | FY18A | FY19E | FY20E | FY21E |
|---------------------------------|----------------|----------------|---------------|---------------|---------------|
| Revenue | 125,980 | 104,543 | 93,564 | 94,130 | 93,412 |
| Cost of sales | (109,716) | (91,128) | (81,401) | (81,893) | (81,268) |
| Gross profit | 16,264 | 13,415 | 12,163 | 12,237 | 12,144 |
| Selling and distribution | (7,460) | (6,342) | (5,506) | (5,577) | (5,582) |
| Administrative expenses | (4,610) | (4,506) | (3,618) | (3,462) | (3,459) |
| Net impairment losses on | 0 | (1,006) | (1,154) | (1,039) | (981) |
| Other income | 2,817 | 3,164 | 2,283 | 2,155 | 2,179 |
| Other expenses | (6,425) | (5,683) | (4,714) | (4,701) | (4,694) |
| Finance expenses | (592) | (265) | (675) | (713) | (747) |
| Share of profits and losses | 13,574 | 12,280 | 13,784 | 14,785 | 15,749 |
| Associates | 2,207 | 3,182 | 3,818 | 4,964 | 6,453 |
| Profit before income tax | 15,775 | 14,239 | 16,382 | 18,649 | 21,061 |
| Income tax expense | (1,148) | (1,661) | (1,659) | (1,799) | (1,995) |
| Profit for the year | 14,627 | 12,578 | 14,723 | 16,850 | 19,067 |
| Profit attributable to: | | | | | |
| Owners of the Company | 14,061 | 12,979 | 14,513 | 16,361 | 18,557 |
| Non-controlling interests | 566 | (401) | 210 | 489 | 510 |
| Profit for the year | 14,627 | 12,578 | 14,723 | 16,850 | 19,067 |

Cash flow

| YE Dec 31 (RMB mn) | FY17A | FY18A | FY19E | FY20E | FY21E |
|--------------------------------|----------------|-----------------|----------------|----------------|----------------|
| Net income | 14,061 | 12,979 | 14,513 | 16,361 | 18,557 |
| D&A | 2,178 | 2,455 | 2,689 | 2,961 | 3,245 |
| Change in working capital | (7,307) | (8,144) | 1,824 | 2,933 | 363 |
| Others | (5,286) | (29,539) | (8,196) | (7,721) | (11,929) |
| Net cash from operating | 3,646 | (22,249) | 10,831 | 14,534 | 10,236 |
| Capex & investments | (4,340) | (4,395) | (4,223) | (4,573) | (4,976) |
| Associated companies | (2,016) | (3,068) | (2,652) | (3,457) | (4,044) |
| Others | 8,064 | 20,143 | - | - | - |
| Net cash from investing | 1,708 | 12,680 | (6,875) | (8,030) | (9,020) |
| Equity raised | - | - | - | - | - |
| Change of Debts | 2,382 | 9,374 | 7,590 | 1,920 | 1,696 |
| Dividend paid | (2,843) | (3,016) | (3,628) | (4,090) | (4,639) |
| Others | (3,034) | (3,455) | - | - | - |
| Net cash from financing | (3,495) | 2,903 | 3,962 | (2,170) | (2,944) |
| Net change in cash | 1,859 | (6,666) | 7,918 | 4,335 | (1,728) |
| Cash at the beginning | 42,199 | 44,058 | 30,904 | 38,822 | 43,156 |
| Exchange difference | - | (6,488) | - | - | - |
| Cash at the end | 44,058 | 30,904 | 38,822 | 43,156 | 41,428 |
| Less: pledged cash | 10,617 | 3,653 | 3,653 | 3,653 | 3,653 |

Balance sheet

| YE Dec 31 (RMB mn) | FY17A | FY18A | FY19E | FY20E | FY21E |
|--------------------------------|----------------|----------------|----------------|----------------|----------------|
| Non-current assets | 97,759 | 111,294 | 121,679 | 135,905 | 154,427 |
| Fixed asset | 15,088 | 15,835 | 16,160 | 16,669 | 17,293 |
| Intangible assets | 4,237 | 4,809 | 5,206 | 5,592 | 5,977 |
| Interest in joint | 54,472 | 62,329 | 66,710 | 72,451 | 80,192 |
| Other non-current assets | 23,962 | 28,321 | 33,603 | 41,192 | 50,964 |
| Current assets | 116,149 | 115,223 | 111,803 | 116,634 | 115,913 |
| Cash | 44,058 | 30,904 | 38,822 | 43,156 | 41,428 |
| Account receivable | 21,084 | 22,522 | 13,743 | 13,471 | 14,067 |
| Inventory | 10,657 | 10,710 | 10,175 | 10,237 | 10,159 |
| Other current assets | 40,350 | 51,087 | 49,064 | 49,770 | 50,259 |
| Current liabilities | 91,770 | 84,457 | 72,448 | 76,688 | 77,901 |
| Borrowings | 14,381 | 15,424 | 14,556 | 14,786 | 14,605 |
| Account payables | 44,134 | 37,140 | 27,777 | 30,450 | 30,785 |
| Other payables | 32,427 | 31,263 | 29,269 | 30,486 | 31,440 |
| Tax payables | 828 | 630 | 846 | 967 | 1,071 |
| Non-current liabilities | 6,814 | 17,135 | 23,983 | 26,062 | 28,321 |
| Borrowings | 2,398 | 10,729 | 19,187 | 20,878 | 22,754 |
| Provisions | 652 | 659 | 608 | 631 | 626 |
| Deferred income tax | 1,555 | 2,086 | 1,822 | 2,127 | 2,439 |
| Others | 2,209 | 3,661 | 2,367 | 2,427 | 2,502 |
| Minority Interest | 6,809 | 6,569 | 7,758 | 8,479 | 9,290 |
| Total net assets | 108,515 | 118,356 | 129,293 | 141,310 | 154,828 |
| Shareholders' equity | 108,515 | 118,356 | 129,293 | 141,310 | 154,828 |

Key ratios

| YE Dec 31 | FY17A | FY18A | FY19E | FY20E | FY21E |
|-----------------------------|-------------|-------------|-------------|-------------|-------------|
| Sales mix | | | | | |
| Passenger vehicles | 49.00% | 38.49% | 26.73% | 17.08% | 10.71% |
| Commercial vehicles | 48.25% | 57.52% | 67.64% | 75.71% | 79.98% |
| Other | 2.74% | 3.99% | 5.63% | 7.21% | 9.31% |
| Total | 100% | 100% | 100% | 100% | 100% |
| P&L ratios (%) | | | | | |
| Gross profit margin | 13% | 13% | 13% | 13% | 13% |
| Pre-tax margin | 13% | 14% | 18% | 20% | 23% |
| Net margin | 11% | 12% | 16% | 17% | 20% |
| Effective tax rate | 7% | 12% | 10% | 10% | 9% |
| Balance sheet ratios | | | | | |
| Current ratio (x) | 1.27 | 1.36 | 1.54 | 1.52 | 1.49 |
| Quick ratio (x) | 0.71 | 0.66 | 0.75 | 0.76 | 0.74 |
| Cash ratio (x) | 0.48 | 0.37 | 0.54 | 0.56 | 0.53 |
| Debtors turnover days | 61 | 79 | 62 | 60 | 63 |
| Debt/equity ratio | 85.48% | 81.32% | 70.36% | 68.60% | 64.72% |
| Net debt / equity ratio | 50.58% | 45.79% | 27.20% | 24.82% | 24.45% |
| Returns (%) | | | | | |
| ROE | 14% | 11% | 12% | 12% | 13% |
| ROA | 8% | 7% | 7% | 8% | 8% |
| Per share | | | | | |
| EPS (RMB) | 1.63 | 1.51 | 1.68 | 1.90 | 2.15 |
| DPS (RMB) | 0.33 | 0.35 | 0.42 | 0.47 | 0.54 |
| BVPS (RMB) | 12.59 | 13.74 | 15.01 | 16.40 | 17.97 |

Source: Company data, CMBIS

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