

Dongfeng Motor (489 HK)

Market value management as a catalyst

DFG released its 1H20 results. 1H20 top-line up by 4% YoY to RMB50.6bn while bottom-line dropped by 64% YoY to RMB3.0bn (1Q-RMB0.3bn /2Q+RMB3.3bn). EPS was RMB0.35, interim DPS was RMB0.1. Given that the work resumption pace in Hubei was slower than other parts of China and DFG took great social responsibilities as an SOE, the decline of bottom-line was within market expectation in 1H20.

■ **DFG sold 1,14mn units in 1H20, down 16.7% YoY.** In 1H20, the Company achieved revenue of RMB50.6bn, a decline of 4% YoY. PV sales were 882K units, a decrease of 22.2% YoY. Revenue from the PV segment was RMB7.6bn, a decrease of 43.9% YoY. Benefiting from strong performance in heavy-truck sales (+19.1% YoY in 1H20), CV sales reached 262K units, an increase of 9.0% YoY. Revenue from the CV segment was RMB39.3bn, an increase of 21.5% YoY. With the increase of the financial penetration rate in retail sales (38% in 1H20 vs 35% in 1H19), the Company's financial segment achieved total revenue of RMB3.5bn, an increase of 40% YoY. In 1H20, a DTA write-off of DPCA reduced DFG's investment income by RMB440mn. In the meanwhile, an impairment loss from PSA equity investment due PSA stock price dropped in 1H20 further dragged down DFG's bottom-line by RMB1.07 bn.

■ **We forecast DFG will achieve a total sales volume of 2.7mn vehicles in 2020E, a decline of 7% YoY.** It implied that DFG will achieve a 1% YoY growth in 2H20E (PV +0% YoY/CV+3%YoY) given 1) overall market recovery and 2) new model rollout in 2H20E. We raise our revenue forecast to RMB104bn to reflect strong CV sales growth. At the same time, we revised down our NP forecast to RMB8.1bn to reflect the investment impairment losses and the decline in shared profit from JVs. Our revised NP forecast suggests that DFG's bottom-line will grow 15% YoY in 2H20E.

■ **DFG officially released the VOYAH (岚图) on 29 Jul, targeting as a high-end NEV brand.** The Company plans to invest RMB11bn in product R&D and sales channel development in the next five years. VOYAH has a team of more than 700 people now and will operate relative independently within DFG. It has seven new models in the pipeline, among three of which have entered into R&D stage. The first model (SUV) will launch in 2021E while sedan/MPV will roll out in 2022. We believe VOYAN will consolidate all the cutting-edge technology that DFG accumulated and will improve the brand awareness of DFG.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	104,543	101,087	103,677	121,640	139,246
YoY growth (%)	-17.02%	-3.31%	2.56%	17.33%	14.47%
Net income (RMB mn)	12,979	12,858	8,052	12,871	14,066
EPS (RMB)	1.51	1.49	0.93	1.49	1.63
YoY growth (%)	-8%	-1%	-37%	60%	9%
Consensus EPS(RMB)	1.51	1.49	1.25	1.45	1.53
P/E (x)	3.23	3.26	5.21	3.26	2.98
P/B (x)	0.35	0.33	0.31	0.29	0.27
Yield (%)	7.19%	7.19%	6.72%	7.67%	8.38%
ROE (%)	11.44%	10.45%	6.16%	9.31%	9.51%
Net gearing (%)	net cash	11%	12%	9%	4%

Source: Company data, Bloomberg, CMBIS estimates

BUY (Up)

Target Price	HK\$7.1
(Previous TP)	HK\$5.6)
Up/Downside	+31.9%
Current Price	HK\$5.4

China Auto Sector

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Stock Data

Mkt Cap (HK\$ mn)	46,613
Avg 3 mths t/o (HK\$ mn)	102.61
52w High/Low (HK\$)	8.06/4.14
Total Issued Shares (mn)	2,856

Source: Bloomberg

Shareholding Structure

Reynolds Margaret (Meg)	8.24%
Brown Brothers Harriman	8.01%
Pandanus Associates	7.99%

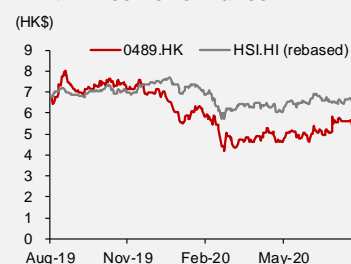
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-2.0%	-4.1%
3-mth	17.7%	6.3%
6-mth	-7.1%	-4.6%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PricewaterhouseCoopers Zhong Tian

Related Reports

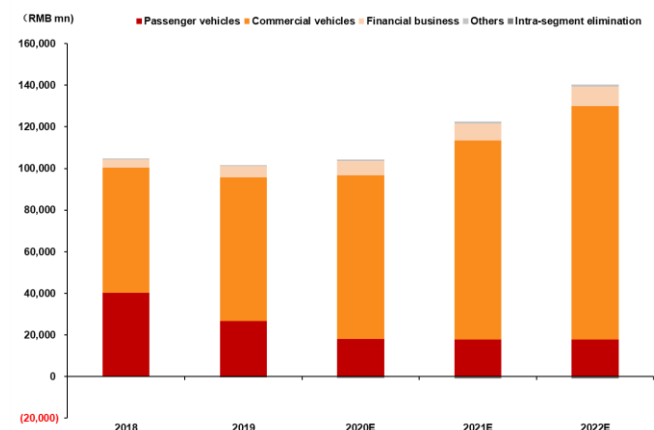
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- **Due to 1) complex company structure of DFG; 2) lack of star PV product; 3) consistent impairment losses of DPCA, the capital market has been giving lower valuation multiple to DFG than that of its peers.** Specifically, the current PE/PB remains at 3.4/0.3 respectively, far below its peers. Even experienced negative impacts from COVID-19, DFG still declared the same amount of interim dividend as last year, suggesting a willingness for market value management. In addition, listing in A-share GEM will boost market sentiment. The Company mentioned that it will improve market value management in the future, through 1) closed communication with the capital market and 2) employee incentive plans, etc. We believe that DFG's market value management was credible and will help DFG get rid of the long-term underestimation.

- **We believe a potential re-rating opportunity will be supported by 1) 2H20E performance recovery and 2) correction of low valuation.** Therefore, we raise our TP to HK\$7.1 (based on new 4.3x 2021E P/E) with an upside of 31.9% from initial TP HK\$5.6 (based on initial 3.5x 2020E P/E). **Upgrade to BUY from Hold.**

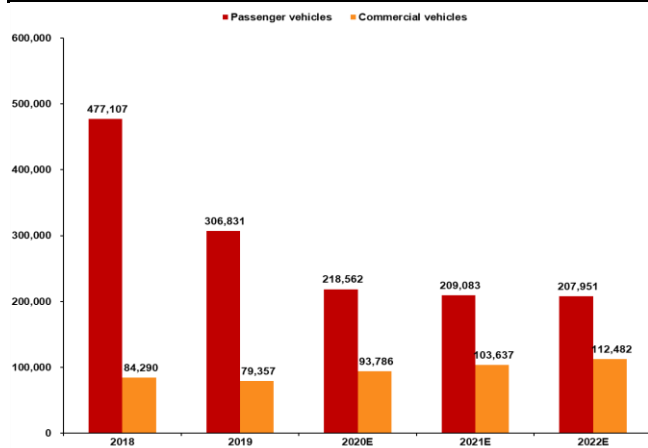
Focus Charts

Figure 1: Revenue composition



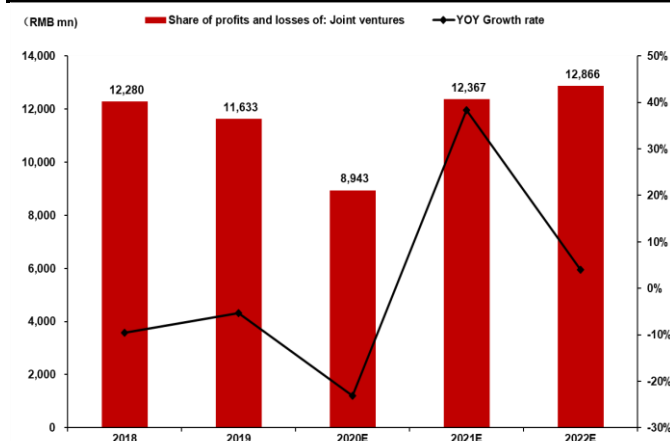
Source: Company data, CMBIS estimates

Figure 2: Sales volume forecast



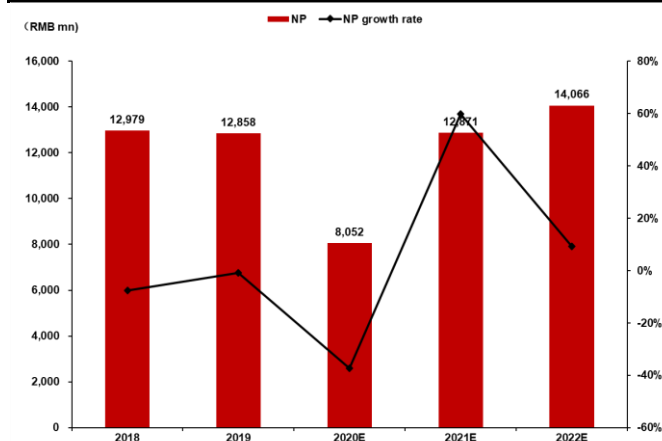
Source: Company data, CMBIS estimates

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	103,677	121,640	95,162	98,389	9%	24%
Gross profit	13,530	16,543	12,856	13,922	5%	19%
Net profit	8,052	12,871	12,439	13,564	-35%	-5%
EPS (RMB)	0.93	1.49	1.44	1.57	-35%	-5%
Gross margin	13.05%	13.60%	13.51%	14.15%	-0.5 ppt	-0.5 ppt
Net Margin	7.77%	10.58%	13.07%	13.79%	-5.3 ppt	-3.2 ppt

Source: CMBIS estimates

Figure 8: CMBIS estimates vs consensus

(RMB mn)	CMBIS		Consensus		Diff (%)	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	103,677	121,640	93,105	97,621	11%	25%
Gross profit	13,530	16,543	11,873	12,841	14%	29%
Net profit	8,052	12,871	10,703	12,681	-25%	2%
EPS (RMB)	0.93	1.49	1.25	1.45	-25%	3%
Gross margin	13.05%	13.60%	12.75%	13.15%	0.3 ppt	0.4 ppt
Net Margin	7.77%	10.58%	11.50%	12.99%	-3.7 ppt	-2.4 ppt

Source: Bloomberg, CMBIS estimates

Figure 9: Revenue breakdown

(RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Passenger vehicles	40,239	26,738	18,094	17,828	17,909
...YoY	-35%	-34%	-32%	-1%	0%
Commercial vehicles	60,136	68,893	78,570	95,504	111,948
...YoY	-1%	15%	14%	22%	17%
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	103,677	121,640	139,246
...YoY	-17%	-3%	3%	17%	14%

Source: Company data, CMBIS estimates

Figure 10: P&L forecast

(RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	104,543	101,087	103,677	121,640	139,246
...YoY	-17.02%	-3.31%	2.56%	17.33%	14.47%
Cost of sales	(91,128)	(87,596)	(90,147)	(105,097)	(119,891)
Gross profit	13,415	13,491	13,530	16,543	19,355
GPM (%)	12.83%	13.35%	13.05%	13.60%	13.90%
...YoY	-17.52%	0.57%	0.29%	22.27%	17.00%
Selling Exp	(6,342)	(4,349)	(4,043)	(5,109)	(5,988)
...% of rev	-6.07%	-4.30%	-3.90%	-4.20%	-4.30%
Admin Exp	(4,506)	(5,076)	(4,925)	(5,717)	(6,545)
...% of rev	-4.31%	-5.02%	-4.75%	-4.70%	-4.70%
Net profit	12,979	12,858	8,052	12,871	14,066
NPM (%)	12.41%	12.72%	7.77%	10.58%	10.10%
...YoY	-7.70%	-0.93%	-37.38%	59.85%	9.28%

Source: Company data, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	104,543	101,087	103,677	121,640	139,246
Passenger vehicles	40,239	26,738	18,094	17,828	17,909
Commercial vehicles	60,136	68,893	78,570	95,504	111,948
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)	(90,147)	(105,097)	(119,891)
Gross profit	13,415	13,491	13,530	16,543	19,355
S&D expenses	(6,342)	(4,349)	(4,043)	(5,109)	(5,988)
Admin expenses	(4,506)	(5,076)	(4,925)	(5,717)	(6,545)
Credit/asset impairment	(1,006)	(1,163)	(1,360)	(1,209)	(1,209)
Other income	3,164	2,231	2,696	3,041	3,481
Other expenses	(5,683)	(5,500)	(7,465)	(7,542)	(8,633)
Finance expenses	(265)	(575)	(1,104)	(973)	(943)
PL from JVs	12,280	11,633	8,943	12,367	12,866
PL from Associates	3,182	3,913	2,543	2,798	3,134
Profit before income tax	14,239	14,605	8,815	14,200	15,519
Income tax expense	(1,661)	(1,759)	(1,146)	(1,704)	(1,862)
Profit for the year	12,578	12,846	7,669	12,496	13,656
Less: MI	(401)	(12)	(383)	(375)	(410)
NP	12,979	12,858	8,052	12,871	14,066

Cash flow

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Net income	12,979	12,858	8,052	12,871	14,066
D&A	2,455	2,677	3,026	3,250	3,547
Change in working capital	6,098	(13,794)	8,621	(21,929)	(20,028)
Others	(43,781)	(13,296)	(9,835)	21,209	21,599
Net cash from operating	(22,249)	(11,555)	9,864	15,401	19,184
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	2,603	611	(1,475)
Dividend paid	(3,016)	(3,016)	(2,818)	(3,218)	(3,517)
Others	(3,455)	(5,001)	-	-	-
Net cash from financing	2,903	11,241	(215)	(2,607)	(4,992)
Net change in cash	(6,666)	1,158	565	4,662	4,673
Cash at the beginning	44,058	30,904	30,085	30,650	35,313
Exchange difference	(6,488)	(1,977)	-	-	-
Cash at the end	30,904	30,085	30,650	35,313	39,986
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	143,309	157,534	171,345
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	65,242	68,866	73,244
Other non-current assets	28,321	45,371	54,702	65,073	73,683
Current assets	115,223	140,104	143,475	151,716	160,972
Cash	30,904	30,085	30,650	35,313	39,986
Account receivable	22,522	12,129	12,020	12,817	14,445
Inventory	10,710	12,191	13,869	14,597	15,985
Other current assets	51,087	85,699	86,936	88,990	90,556
Current liabilities	84,457	104,182	111,082	123,732	137,617
Borrowings	15,424	19,413	35,976	37,737	41,913
Account payables	37,140	46,589	37,145	45,464	52,860
Other payables	31,263	37,172	37,327	39,583	41,884
Tax payables	630	1,008	634	949	960
Non-current liabilities	17,135	33,850	35,428	35,939	34,186
Borrowings	10,729	25,998	28,881	27,828	25,149
Provisions	659	750	695	815	933
Deferred income tax	2,086	2,275	1,411	2,187	2,358
Others	3,661	4,827	4,442	5,109	5,747
Shareholders' equity	118,356	127,781	133,850	142,728	153,161
Minority Interest	6,569	6,187	6,425	6,851	7,352
Total net assets	124,925	131,968	140,274	149,579	160,513

Key ratios

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
Passenger vehicles	38%	26%	17%	15%	13%
Commercial vehicles	58%	68%	76%	79%	80%
Financial business	4%	5%	7%	7%	7%
Others	0%	1%	1%	1%	1%
Intra-segment	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%	11%
Net margin	12%	13%	8%	11%	10%
Effective tax rate	12%	12%	13%	12%	12%
Balance sheet ratios					
Current ratio (x)	1.36	1.34	1.29	1.23	1.17
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	21%	34%	46%	44%	42%
Net debt / equity ratio	net cash	11%	12%	9%	4%
Returns (%)					
ROE	11%	10%	6%	9%	10%
ROA	7%	6%	4%	5%	5%
Per share					
EPS (RMB)	1.51	1.49	0.93	1.49	1.63
DPS (RMB)	0.35	0.35	0.33	0.37	0.41
BVPS (RMB)	13.74	14.83	15.54	16.57	17.78

Source: Company data, CMBIS estimates

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