

# Bitauto Holdings (BITA US)

**Buy: Evolving to one-stop shop for auto services**

- Solid 2Q17 results beat expectation with fast progress in Yixin
- Traditional business recovered slightly
- Maintain Buy and raise TP to USD44 from USD33

**All eyes on Yixin Capital.** Bitauto is evolving towards being a one-stop shop for auto services through its transaction arm, Yixin Capital. The company potentially could provide a seamless user experience including test-driving, auto financing, and post services etc. Yixin has been making progress in its platform strategy, which will likely prove its business model as platform-driven rather than balance-sheet-driven. In 1H, the platform business contributed to 25% of Yixin's revenue from single digits in 2016, and the company expects the ratios to go up to 33% by year-end. The platform business, which bears no funding cost, will likely have a higher operating margin of c30% in the long-term, compared with that of 10-20% for self-funded products. That said, we believe that it will still take time for Yixin to demonstrate its risk control capability in the future, given that Yixin is only 19 months old while its average loan duration is 2-3 years. Besides, the company expects to roll out a few initiatives.

1) Operating leasing business under the brand of Kaizouba (开走吧, or "Drive It Away"), which enables consumers to lease a car with a small down-payment. The approval process can be completed within one day. The business model has been quite popular in the US but is relatively new in China. 2) Offline experience stores: The company currently has 70 experience stores, and targets to have 250 and 500-1,000 stores by end of 2017 and 2018 respectively, in order to provide a seamless online to offline transaction experience. Bitauto only needs to authorise the brand usage, set the services standards as well as help train store staff. Its offline partners (dealers) will bear the other costs of the stores.

**2Q17 results beat.** Bitauto reported strong 2Q17 results, exceeding consensus revenue/net profit by 13%/32%. Advertising business growth recovered to 13% y-o-y in 2Q from 4% in 1Q. The slow growth previously was mainly due to 1) sector-wise slow auto sales volume growth, 2) management turnover in Bitauto's advertising team. Transaction business, which is largely attributable to Yixin, grew 188% y-o-y and accounts for 43% of total revenue. Non-GAAP operating margin improved 3ppt y-o-y, mainly on scale effect from Yixin and less margin drag from several new businesses. In 3Q17, the company guides for revenue of RMB2.17-2.22bn. Excluding the effect from direct sales, implied y-o-y revenue growth is 61%-65% y-o-y.

**Maintain Buy and raise TP to USD44.** We raise our 2017-2019e net profit by 36%/67%/70% mainly to factor in the fast progress in Yixin's development. Our new EPS reflects the change in net profit estimate as well as the impact from deducting "accretion to redeemable non-controlling interests". Our SOTP-based TP increases from USD33 to USD44, which implies 16% upside and we rate the stock Buy. Current price and TP implies 20x/24x 2018e PE respectively. **Key downside risk:** failure to control the investment cost in new initiatives.

## Disclosures & Disclaimer

This report must be read with the disclosures and the analyst certifications in the Disclosure appendix, and with the Disclaimer, which forms part of it.

## EQUITIES INTERNET

China



**MAINTAIN BUY**

TARGET PRICE (USD)

**44.00**

PREVIOUS TARGET (USD)

**33.00**

SHARE PRICE (USD)

**37.88**

(as of 15 Aug 2017)

UPSIDE/DOWNSIDE

**+16.2%**

### MARKET DATA

Market cap (USDm)	2,679	Free float	100%
Market cap (USDm)	2,679	BBG	BITA US
3m ADTV (USDm)	46	RIC	BITA.N

### FINANCIALS AND RATIOS (CNY)

Year to	12/2017e	12/2018e	12/2019e
HSBC EPS	6.93	13.01	17.40
HSBC EPS (prev)	9.37	11.25	13.61
Change (%)	-26.0	15.6	27.8
Consensus EPS	7.56	11.57	14.98
PE (x)	36.6	19.5	14.5
Dividend yield (%)	0.0	0.0	0.0
EV/EBITDA (x)	13.0	9.1	6.4
ROE (%)	9.1	12.9	14.8

### 52-WEEK PRICE (USD)



Source: Thomson Reuters IBES, HSBC estimates

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## Financials &amp; valuation: Bitauto Holdings

Buy

## Financial statements

Year to	12/2016a	12/2017e	12/2018e	12/2019e
<b>Profit &amp; loss summary (CNYm)</b>				
Revenue	5,773	8,568	10,274	12,048
EBITDA	580	1,037	1,332	1,596
Depreciation & amortisation	-689	-801	-833	-848
Operating profit/EBIT	-109	236	499	748
Net interest	-11	-3	25	77
PBT	-190	279	524	825
HSBC PBT	-113	553	853	1,211
Taxation	-148	-350	-229	-283
Net profit	-338	-71	295	542
HSBC net profit	393	878	1,299	1,603

**Cash flow summary (CNYm)**

Cash flow from operations	177	1,203	1,639	2,216
Capex	-575	-189	-189	-189
Cash flow from investment	-11,987	-189	-189	-189
Dividends	0	0	0	0
Change in net debt	1,017	-938	-1,374	-1,962
FCF equity	-681	467	1,143	1,533

**Balance sheet summary (CNYm)**

Intangible fixed assets	2,788	2,112	1,437	762
Tangible fixed assets	1,300	1,873	2,172	2,456
Current assets	10,999	7,085	8,773	10,983
Cash & others	2,024	2,962	4,336	6,298
Total assets	16,534	12,519	13,829	15,648
Operating liabilities	3,513	4,996	5,683	6,574
Gross debt	0	0	0	0
Net debt	-2,024	-2,962	-4,336	-6,298
Shareholders' funds	9,544	9,746	10,370	11,298
Invested capital	9,550	3,113	2,363	1,329

## Ratio, growth and per share analysis

Year to	12/2016a	12/2017e	12/2018e	12/2019e
<b>Y-o-y % change</b>				
Revenue	35.7	48.4	19.9	17.3
EBITDA	436.4	78.7	28.5	19.9
Operating profit			111.7	49.8
PBT			88.0	57.4
HSBC EPS	-12.8	111.2	87.8	33.8
<b>Ratios (%)</b>				
Revenue/IC (x)	0.7	1.4	3.8	6.5
ROIC	12.0	-3.7	24.1	50.7
ROE	4.4	9.1	12.9	14.8
ROA	-1.7	-0.6	2.6	4.0
EBITDA margin	10.0	12.1	13.0	13.2
Operating profit margin	-1.9	2.8	4.9	6.2
EBITDA/net interest (x)	55.2	344.7		
Net debt/equity	-20.6	-29.5	-40.7	-54.4
Net debt/EBITDA (x)	-3.5	-2.9	-3.3	-3.9
CF from operations/net debt				
<b>Per share data (CNY)</b>				
EPS Rep (diluted)	-4.88	-1.03	4.26	7.84
HSBC EPS (diluted)	3.28	6.93	13.01	17.40
DPS	0.00	0.00	0.00	0.00
Book value	146.46	149.58	159.15	173.39

## Valuation data

Year to	12/2016a	12/2017e	12/2018e	12/2019e
EV/sales	2.5	1.6	1.2	0.8
EV/EBITDA	24.9	13.0	9.1	6.4
EV/IC	1.5	4.3	5.1	7.6
PE*	77.2	36.6	19.5	14.5
PB	1.7	1.7	1.6	1.5
FCF yield (%)	-4.1	2.8	6.9	9.3
Dividend yield (%)	0.0	0.0	0.0	0.0

\* Based on HSBC EPS (diluted)

## Issuer information

Share price (USD)	37.88	Free float	100%
Target price (USD)	44.00	Sector	Internet
Reuters (Equity)	BITA.N	Country	China
Bloomberg (Equity)	BITA US	Analyst	Chi Tsang, CFA
Market cap (USDm)	2,679	Contact	+852 2822 2590

## ESG metrics

Environmental Indicators		Governance Indicators	
GHG Intensity (kg/USD)	n/a	No. of board members	7
Energy Intensity (kWh/USD)	n/a	Average board experience (years)	6
CO2 reduction policy	Yes	Female board members (%)	14
Social Indicators		Board members Independence (%)	43
Employee costs as % of sales	n/a		
Employee turnover (%)	n/a		
Diversity policy	Yes		

Source: Company data, HSBC

## Price relative



Source: HSBC

Note: Priced at close of 15 Aug 2017

**Bitauto 2Q17 results**

(Rmb m)	2Q17 results			Delta		3Q17e	
	Actual	Consensus	Guidance	vs Cons.	vs Guidance	Guidance	Consensus
Revenue	2,171	1,920	1,855	13%	17%	2,195	2,160
Advertising and subscription	1,010						
Transaction service	923						
Digital marketing solutions	241						
Gross profit	1,398						
Non-GAAP operating profit	253						
Non-GAAP net income	225	171		32%			
Non-GAAP EPS (USD)	0.25	0.24		5%			

Source: Company reports, HSBC, Bloomberg

**Bitauto quarterly results**

(Rmb m)	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	2Q17 y-o-y
<b>Revenues</b>	<b>1,095,350</b>	<b>1,403,378</b>	<b>1,525,216</b>	<b>1,749,003</b>	<b>1,545,442</b>	<b>2,170,632</b>	<b>55%</b>
Advertising and subscription	714,500	890,300	898,300	929,886	744,900	1,010,000	13%
Transaction service	201,400	320,300	403,700	626,276	625,800	922,600	188%
Digital marketing solutions	167,604	192,800	197,900	229,986	174,800	241,400	25%
Cost of revenues	(352,503)	(540,936)	(541,402)	(640,313)	(519,007)	(772,659)	43%
<b>Gross profit</b>	<b>742,174</b>	<b>861,745</b>	<b>982,360</b>	<b>1,108,690</b>	<b>1,026,435</b>	<b>1,397,973</b>	<b>62%</b>
Gross margin (%)	67.8%	61.4%	64.4%	63.4%	66.4%	64.4%	3.0%
Operating expenses	(808,640)	(850,851)	(972,464)	(1,129,242)	(1,037,331)	(1,385,207)	63%
Income/(loss) from operations	(66,466)	10,894	(13,104)	(20,553)	(10,896)	12,766	17%
<b>Non-GAAP operating profit</b>	<b>110,651</b>	<b>180,662</b>	<b>159,708</b>	<b>160,881</b>	<b>223,096</b>	<b>252,584</b>	<b>40%</b>
<b>Non-GAAP operating profit margin</b>	<b>10.1%</b>	<b>12.9%</b>	<b>10.5%</b>	<b>9.2%</b>	<b>14.4%</b>	<b>11.6%</b>	<b>-1.2%</b>
GAAP Net income	(97,035)	(36,236)	(47,184)	(105,083)	(50,113)	(63,270)	75%
<b>Non-GAAP net income</b>	<b>80,370</b>	<b>136,030</b>	<b>130,133</b>	<b>98,489</b>	<b>156,940</b>	<b>225,358</b>	<b>66%</b>
<b>Non-GAAP net margin</b>	<b>7.3%</b>	<b>9.7%</b>	<b>8.5%</b>	<b>5.6%</b>	<b>10.2%</b>	<b>10.4%</b>	<b>0.7%</b>
EPS - Diluted (USD)	0.25	0.07	0.20	0.15	0.03	0.16	129%

Source: Company reports, HSBC

**2Q17 results.** Bitauto reported strong 2Q17 results, exceeding consensus revenue and net profit by 13% and 32% respectively. The advertising business growth recovered to 13% y-o-y in 2Q from that of 4% y-o-y in 1Q. The slow growth previously is mainly due to 1) sector-wise slow auto sales volume growth, 2) management turnover in Bitauto's advertising team. Transaction business, which is largely attributable to Yixin, grows 188% y-o-y and accounts for 43% of total revenue. Non-GAAP operating margin improved 3ppt y-o-y, mainly on scale effect from Yixin and less margin drag from several new businesses. In 3Q17, the company guides revenue to be at the range of RMB2.17-2.22bn. Excluding the effect from direct sales (discontinued since 2Q17), the implied y-o-y revenue growth is 61%-65% y-o-y. The company expects to carry out national-wide marketing campaign in 2H17, to promote the brand of Yiche and Taoche. The company has already included the budget at the beginning of year, thus this won't lead to a disproportionally increase in S&M expenses.

**Earning estimate changes**

(Rmb m)	2017e	2018e	2019e
<b>Current</b>			
Total revenue	8,568	10,274	12,048
Non-GAAP operating margin	13.8%	14.6%	15.0%
Non-GAAP net margin	10.3%	12.6%	13.3%
Non-GAAP net profit	878	1,299	1,603
EPS (USD)	0.99	1.86	2.49
<b>Previous</b>			
Total revenue	7249	8776	10,478
Non-GAAP operating margin	10.4%	10.3%	10.5%
Non-GAAP net margin	8.9%	8.9%	9.0%
Non-GAAP net profit	648	779	942
EPS (USD)	1.30	1.56	1.89
<b>Delta</b>			
Total revenue	18%	17%	15%
Non-GAAP operating margin (bps)	342	434	455
Non-GAAP net margin (bps)	131	377	432
Non-GAAP net profit	36%	67%	70%
EPS (USD)	-24%	19%	31%

Source: Company reports, HSBC estimate

**Earnings estimate changes:** We raise our net profit forecasts for 2017-19e by 36%/67%/70%, primarily due to,

- ▶ 18%/17%/15% increase in revenue forecasts mainly due to faster-than-expected progress in Yixin Capital.
- ▶ 342-455 bps increase in non-GAAP operating margin estimate due to 1) increasingly revenue contribution from platform business of Yixin, which has a higher margin, 2) scale effect of Yixin.

Our EPS estimates are revised -24%/19%/31% respectively, due to 1) higher net profit estimate, 2) change in EPS calculation methodology, as we now deduct the “accretion to redeemable non-controlling interests” before calculating diluted EPS. In 2015 and 2016, Yixin issued redeemable convertible preference shares to certain third-party investors. The redeemable convertible preference shares contain conversion features and redemption features. Bitauto elects to use the effective interest method for the changes of redemption value over the period from the date of issuance to the earliest redemption date of the non-controlling interests. After the issuance of redeemable convertible preference shares in 2016, Bitauto holds 100% of ordinary shares of Yixin and approximately 46.9% equity interest in Yixin on a fully diluted basis. We now deduct the “accretion to redeemable non-controlling interests” from net profit before calculating diluted EPS.

**Valuation:** We continue to use sum-of-the-parts valuation in order to better reflect the value of Yixin Capital (see below for details). Our sum-of-the-parts valuation is based on: (1) Yixin Capital: According to company management, Yixin's valuation in the last round fundraising will be around USD3.7bn. Upon completion, Bitauto will still hold no less than 48% of Yixin's outstanding share capital. Previously, we assumed Yixin's valuation at the low end of the valuation range of USD3.5-4.0bn, (2) Traditional: We estimate 2017 net profit of the traditional business (including media advertising and digital marketing solutions, excluding the losses from Huimaiche) at cRMB750m (was RMB350m). We apply a 10x forward PE to this business, as we expect the business to grow at a high-single digit CAGR. Combined, we estimate Bitauto equity value at USD2,859m, or USD44 per ADS (was USD33 per ADS). Our new TP implies upside of 16% and we rate the stock Buy as we see potential catalyst in Yixin. The fast growth auto financing may beat our expectation, and the potential IPO of Yixin may lead to rerating.

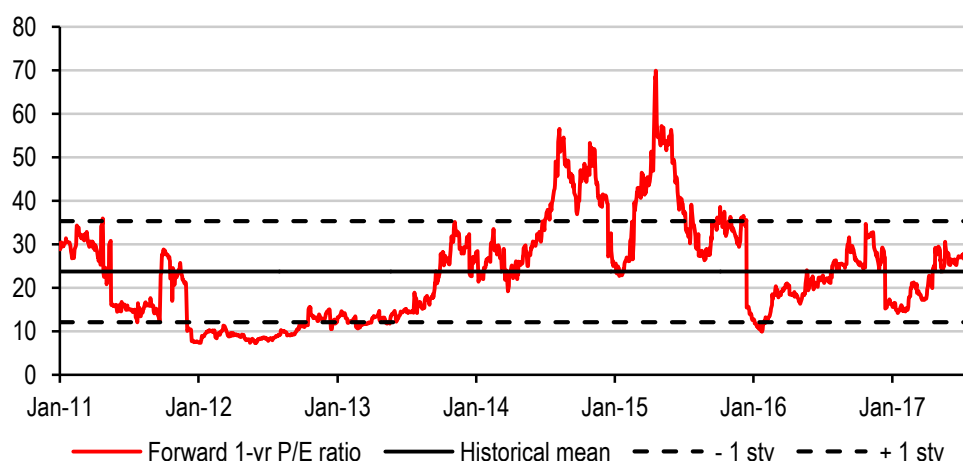
## Sum-of-the-parts valuation

<b>1) Yixin Capital part</b>	
Valuation (USDm)	3,700
Bitauto's stake	48%
48% stake in Yixin Capital (USDm)	1,780
<b>2) Traditional business part</b>	
2017e net profit (USDm)	108
PE	10x
Traditional part value (USDm)	1,083
<b>Sum-of-the-parts (USDm)</b>	<b>2,859</b>
Numbers of share (m)	69
<b>Target price (USDm)</b>	<b>44</b>

Source: Company reports, HSBCe

The company is currently trading at 32x Bloomberg forward PE, compared with historical range of 12x-35x. Its China Internet peers are trading at 36x and 22x 2017e/2018e PE, largely in line with that of Bitauto.

## Forward PE band



Source: Bloomberg

## Comp table

Company	Ticker	Rating	Currency	Market Cap (USD bn)	Share Price 15-Aug-17	Target Price	Implied Upside/downside	PE 2017e	PE 2018e
Alibaba*	BABA US	Buy	USD	404	157.75	168	6%	33.7	23.1
Baidu	BIDU US	Buy	USD	79	225.33	245	9%	30.1	19.9
JD.com	JD US	Buy	USD	63	44.05	49	11%	80.6	43.1
NetEase	NTES US	Buy	USD	36	276.07	336	22%	16.9	13.6
Ctrip	CTRP US	Buy	USD	35	51.55	62	20%	50.2	30.8
Vipshop	VIPS US	Buy	USD	6	11.17	18	61%	12.4	9.9
58.com	WUBA US	Hold	USD	8	53.15	45	-15%	60.6	30.7
Weibo	WB US	Buy	USD	20	85.46	97	14%	51.8	30.4
SINA	SINA US	Buy	USD	7	96.75	170	76%	29.4	17.4
Momo	MOMO US	Buy	USD	17	44.23	50	13%	25.1	19.0
YY	YY US	Buy	USD	4	73.10	89	22%	78.0	69.2
Sohu	SOHU US	Hold	USD	2	54.67	62	13%	-10.1	-35.6
<b>Bitauto</b>	<b>BITA US</b>	<b>Buy</b>	<b>USD</b>	<b>3</b>	<b>37.88</b>	<b>44</b>	<b>16%</b>	<b>38.3</b>	<b>20.4</b>
Changyou	CYOU US	Hold	USD	2	40.10	43	7%	10.0	11.7
Average								<b>36.2</b>	<b>21.7</b>

Source: Bloomberg, HSBCe, \*Note: Alibaba has Mar FY and estimates for FY2017, 2018

**Key downside risks**

**Macro:** Bitauto's operational results are highly correlated to the automotive industry. Our base case is that the auto industry could sustain positive growth rate in sales volume in the coming years. If the growth rate turns out to be significantly lower than our forecast, automakers and dealers could cut their advertising budgets or shift budgets from advertising to direct sales rebates to consumers. As a result, Bitauto's revenue growth could be significantly lower than our forecasts. As a pure online auto advertising platform, we think it is unlikely Bitauto would escape the drag from the real economy.

**Investments in mobile and new business initiatives:** Our base case is that Bitauto will control spending, especially on sales and marketing expenses, to adjust to slower revenue growth. The company will continue to spend on mobile, e-commerce, and used auto businesses, but we expect expenses to grow more slowly than revenue, and the margin to gradually improve in the long term. If Bitauto puts market share ahead of profitability or makes strategic investments in new businesses at the expense of margin, its profitability could be much lower than our forecasts.

# Disclosure appendix

## Analyst Certification

The following analyst(s), economist(s), or strategist(s) who is(are) primarily responsible for this report, including any analyst(s) whose name(s) appear(s) as author of an individual section or sections of the report and any analyst(s) named as the covering analyst(s) of a subsidiary company in a sum-of-the-parts valuation certifies(y) that the opinion(s) on the subject security(ies) or issuer(s), any views or forecasts expressed in the section(s) of which such individual(s) is(are) named as author(s), and any other views or forecasts expressed herein, including any views expressed on the back page of the research report, accurately reflect their personal view(s) and that no part of their compensation was, is or will be directly or indirectly related to the specific recommendation(s) or views contained in this research report: Chi Tsang, CFA and Wayne Wang

## Important disclosures

### Equities: Stock ratings and basis for financial analysis

HSBC believes an investor's decision to buy or sell a stock should depend on individual circumstances such as the investor's existing holdings, risk tolerance and other considerations and that investors utilise various disciplines and investment horizons when making investment decisions. Ratings should not be used or relied on in isolation as investment advice. Different securities firms use a variety of ratings terms as well as different rating systems to describe their recommendations and therefore investors should carefully read the definitions of the ratings used in each research report. Further, investors should carefully read the entire research report and not infer its contents from the rating because research reports contain more complete information concerning the analysts' views and the basis for the rating.

### From 23rd March 2015 HSBC has assigned ratings on the following basis:

The target price is based on the analyst's assessment of the stock's actual current value, although we expect it to take six to 12 months for the market price to reflect this. When the target price is more than 20% above the current share price, the stock will be classified as a Buy; when it is between 5% and 20% above the current share price, the stock may be classified as a Buy or a Hold; when it is between 5% below and 5% above the current share price, the stock will be classified as a Hold; when it is between 5% and 20% below the current share price, the stock may be classified as a Hold or a Reduce; and when it is more than 20% below the current share price, the stock will be classified as a Reduce.

Our ratings are re-calibrated against these bands at the time of any 'material change' (initiation or resumption of coverage, change in target price or estimates).

Upside/Downside is the percentage difference between the target price and the share price.

### Prior to this date, HSBC's rating structure was applied on the following basis:

For each stock we set a required rate of return calculated from the cost of equity for that stock's domestic or, as appropriate, regional market established by our strategy team. The target price for a stock represented the value the analyst expected the stock to reach over our performance horizon. The performance horizon was 12 months. For a stock to be classified as Overweight, the potential return, which equals the percentage difference between the current share price and the target price, including the forecast dividend yield when indicated, had to exceed the required return by at least 5 percentage points over the succeeding 12 months (or 10 percentage points for a stock classified as Volatile\*). For a stock to be classified as Underweight, the stock was expected to underperform its required return by at least 5 percentage points over the succeeding 12 months (or 10 percentage points for a stock classified as Volatile\*). Stocks between these bands were classified as Neutral.

\*A stock was classified as volatile if its historical volatility had exceeded 40%, if the stock had been listed for less than 12 months (unless it was in an industry or sector where volatility is low) or if the analyst expected significant volatility. However, stocks which we did not consider volatile may in fact also have behaved in such a way. Historical volatility was defined as the past month's average of the daily 365-day moving average volatilities. In order to avoid misleadingly frequent changes in rating, however, volatility had to move 2.5 percentage points past the 40% benchmark in either direction for a stock's status to change.



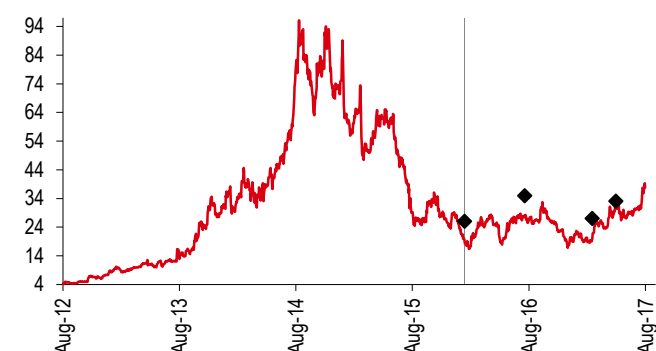
**Rating distribution for long-term investment opportunities**

As of 16 August 2017, the distribution of all independent ratings published by HSBC is as follows:

<b>Buy</b>	45%	( 26% of these provided with Investment Banking Services )
<b>Hold</b>	41%	( 25% of these provided with Investment Banking Services )
<b>Sell</b>	14%	( 17% of these provided with Investment Banking Services )

For the purposes of the distribution above the following mapping structure is used during the transition from the previous to current rating models: under our previous model, Overweight = Buy, Neutral = Hold and Underweight = Sell; under our current model Buy = Buy, Hold = Hold and Reduce = Sell. For rating definitions under both models, please see "Stock ratings and basis for financial analysis" above.

For the distribution of non-independent ratings published by HSBC, please see the disclosure page available at <http://www.hsbcnet.com/gbm/financial-regulation/investment-recommendations-disclosures>.

**Share price and rating changes for long-term investment opportunities****Bitauto Holdings (BITA.N) share price performance USD****Vs HSBC rating history**

Source: HSBC

**Rating & target price history**

From	To	Date	Analyst
N/A	Buy	27 Jan 2016	Terry Chen
Target price	Value	Date	Analyst
Price 1	26.00	27 Jan 2016	Terry Chen
Price 2	35.00	03 Aug 2016	Terry Chen
Price 3	27.00	02 Mar 2017	Terry Chen
Price 4	33.00	15 May 2017	Terry Chen

Source: HSBC

To view a list of all the independent fundamental ratings disseminated by HSBC during the preceding 12-month period, please use the following links to access the disclosure page:

Clients of Global Research and Global Banking and Markets: [www.research.hsbc.com/A/Disclosures](http://www.research.hsbc.com/A/Disclosures)

Clients of HSBC Private Banking: [www.research.privatebank.hsbc.com/Disclosures](http://www.research.privatebank.hsbc.com/Disclosures)

**HSBC & Analyst disclosures****Disclosure checklist**

Company	Ticker	Recent price	Price date	Disclosure
BITAUTO HOLDINGS	BITA.N	37.88	15 Aug 2017	2, 6, 7

Source: HSBC

- 1 HSBC has managed or co-managed a public offering of securities for this company within the past 12 months.
- 2 HSBC expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
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