


Rating
Buy

Asia
China

Automobiles &
Components

Company
**Huayu Automotive
Alert**

Reuters
600741.SS

Bloomberg
600741 CH

Exchange
SHH
Ticker
600741

Date
25 August 2017

Forecast Change

Price at 24 Aug 2017 (CNY)	21.18
Price target - 12mth (CNY)	23.70
52-week range (CNY)	24.57 - 15.45
Shanghai Composite	3,272

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1H17 profit a small miss on gross margin and SG&A (Revised)

6% profit growth on 12% revenue and 17% JV contribution YoY

Huayu released 1H17 results after market close on 24 August. The company's 1H17 gross revenue edged up by 11.5% YoY to RMB68.4bn, achieving 51% of our FY17E revenue forecast. The revenue growth was likely driven by growth and new model launches from key OEM customers and good momentum on overseas business, according to the company. Meanwhile, Huayu's 1H17 gross profit grew 12.7% YoY to RMB9.4bn with 15.2bps YoY gross profit margin improvement. Together with 17.4% YoY growth in profit contribution from its JVs/associates, but partially offset by 18.7% YoY jump in SG&A expenses, 1H17 net profit increased by 5.5% YoY to RMB3.2bn, achieving 45% of our FY17E profit estimate and 49% of consensus.

On a quarterly basis, 2Q17 revenue increased by 16.2% YoY (1.1% QoQ) to RMB34.4bn. In addition, JVs/associates income grew 12.5% YoY (-5.0% QoQ) to RMB924.8m. With 12.1% YoY increase in SG&A expenses, 2Q17 net profit increased by 4.1% YoY (11.5% QoQ) to RMB1.7bn.

Deutsche Bank view – attractive valuation with expanding overseas sales

We raise our FY17-19E revenue by 2.1-6.2% to reflect slightly better-than-expected 1H17 revenue growth. However, with lower margin assumptions and JV earnings contribution, we adjust down our FY17-19E earnings forecasts by 2.5-6.1%. Our TP is based on 10.5x FY18E P/E (unchanged), about 10% below Huayu's mid-cycle P/E of 12x. This is justified, in our view, as we expect Huayu to deliver a 12.0% FY16-19E three-year net profit CAGR. We think that the expanding overseas sales of its interior trim subsidiary Yanfeng should provide an additional growth driver. Maintain Buy on attractive FY18E P/E of 9.2x and 5.8% dividend yield. Key downside risks: weaker auto sales; inability to acquire new customers; and unexpected increase in raw material prices.

Figure 1: Huayu Automotive – 1H17 results summary

(RMBm)	1H17	1H16	YoY	2Q17	2Q16	YoY	1Q17	QoQ
Gross revenue	68,394	61,340	11.5%	34,392	29,603	16.2%	34,002	1.1%
Gross profit	9,404	8,341	12.7%	4,578	4,147	10.4%	4,826	-5.2%
Gross profit margin	13.7%	13.6%		13.3%	14.0%		14.3%	
Selling and distribution	-821	-677	21.2%	-297	-327	-9.3%	-524	-43.3%
Administrative expenses	-5,497	-4,646	18.3%	-2,759	-2,400	15.0%	-2,737	0.8%
Operating profit	3,087	2,917	5.8%	1,521	1,319	15.3%	1,565	-2.8%
JVs/associates	1,898	1,617	17.4%	925	822	12.5%	973	-5.0%
Net profit	3,233	3,064	5.5%	1,704	1,637	4.1%	1,529	11.5%
Net margin	4.7%	5.0%		5.0%	5.5%		4.5%	

Source: Company data

Key changes			
TP	24.30 to 23.70	↓	-2.5%
Sales (FYE)	133,817 to 136,631	↑	2.1%
Op prof margin (FYE)	5.1 to 4.5	↓	-13.1%
Net profit (FYE)	6,962.1 to 6,692.4	↓	-3.9%

Source: Deutsche Bank

Stock data	
Market cap (CNYm)	66,775
Market cap (USDm)	10,025
Shares outstanding (m)	3,152.7
Major shareholders	SAIC Motor (58.32%)
Free float (%)	33
Avg daily value traded (USDm)	60.1

Source: Deutsche Bank

Key data			
FYE 12/31	2016A	2017E	2018E
Sales (CNYm)	123,747	136,631	146,446
Net Profit (CNYm)	6,075.8	6,692.4	7,725.8
DB EPS (CNY)	1.82	1.94	2.26
PER (x)	8.4	10.9	9.4
Yield (net) (%)	6.6	5.0	5.8

Source: Deutsche Bank

(We revised our 1Q17 financials in the second paragraph and Figure 1.)

Deutsche Bank AG/Hong Kong

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