



Rating  
**Buy**

Asia  
China

Automobiles & Components

Company  
**Yutong Bus**

Reuters 600066.SS    Bloomberg 600066 CH    Exchange SHH    Ticker 600066

Date  
29 August 2017

## Forecast Change

Price at 28 Aug 2017 (CNY)	21.03
Price target - 12mth (CNY)	25.20
52-week range (CNY)	23.09 - 19.18
Shanghai Composite	3,332

# 1H17 behind; new energy bus sales pick-up in sight

## 1H17 not a surprise; 35% net profit decline on 27% sales volume drop

Yutong Bus reported 34.8% YoY 1H17 net profit decline to RMB805.1m. The company's 1H17 revenue decreased by 29.8% YoY to RMB9.3bn on the back of 26.7% YoY decrease in bus sales volume to 21,828 units. Yutong's 1H17 net profit accounted for 20% of our original FY17 earnings forecasts and 21% of consensus. Although the result is lower than Yutong's recent year performance (1H16 net profit accounted for 31% of FY16 profit and 1H15 27% of FY15), we believe it brings no surprises to the market given weak 1H17 NEV bus sales.

Due to the product mix shift with decline in sales contribution from new energy buses and partially offset by reduction in procurement costs, in our view, gross profit margin contracted merely by 26bps YoY to 24.2% in 1H17. Meanwhile, operating profit margin narrowed by 2.1ppt YoY on 1.9ppt YoY expansion in SG&A expenses ratio.

With a 55.7% decline in non-operating income, partially mitigated by 1) RMB39.5m gain on a change in fair value (vs. loss of RMB44.8m in 1H16) mainly from financial assets; 2) RMB75.0m investment gain (up 1.7x YoY) due to higher contribution from JV/associates; and 3) 72.5% YoY decline in impairment loss on assets, 1H17 net profit margin decreased 67bps to 8.6%.

On a quarterly basis, Yutong's 2Q17 revenue declined 33.1% YoY but improved 40.7% QoQ to RMB5.4bn. Gross profit margin remained flattish YoY and expanded 1.6ppt QoQ to 24.8%. 2Q17 net profit dropped 42.9% YoY but increased 54.6% QoQ to RMB488.8m.

## Deutsche Bank view – new energy bus demand to recover; maintain Buy

We cut our FY17-19E revenue estimates by 8.9-13.6% and net profit by 13.1-14.5% mainly on reduced NEV bus sales forecast. Meanwhile, we forecast stable NEV gross margins for Yutong going forward, on cost reduction and better mix mitigating cuts in subsidies, leading to consistent c.60% gross profit contribution from the NEV bus business.

We believe the NEV bus demand will continue to recover on the clarification of some local government subsidy and new subsidy eligibility list. Maintain Buy given our optimism on Yutong's increasing profit contribution from NEV bus segment. Target price is based on 14x FY18E P/E (rolled forward from 14x FY17E P/E), c.30% above Yutong's mid-cycle P/E of 11x to reflect our optimism

## Valuation & Risks

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## Key changes

TP	24.00 to 25.20	↑	5.0%
Sales (FYE)	35,682 to 30,834	↓	-13.6%
Op prof margin (FYE)	12.8 to 12.6	↓	-1.6%
Net profit (FYE)	4,082.0 to 3,484.0	↓	-14.6%

Source: Deutsche Bank

## Price/price relative



Performance (%)	1m	3m	12m
Absolute	-5.1	4.6	-3.9
Shanghai Composite	2.4	7.1	8.5

Source: Deutsche Bank



on increasing profit contribution from the new energy bus. Key downside risks include: 1) unexpected changes in the Chinese government's new energy bus subsidy policy; 2) weaker-than-expected new energy bus demand; and 3) market share loss in new energy buses.

#### Forecasts and ratios

Year End Dec 31	2015A	2016A	2017E	2018E	2019E
Sales (CNYm)	31,059.1	35,689.1	30,833.9	35,550.4	38,109.4
EBITDA (CNYm)	4,644.1	5,774.6	4,687.1	5,669.6	6,451.9
Reported NPAT (CNYm)	3,535.2	4,043.7	3,484.0	4,239.2	4,822.9
Reported EPS FD (CNY)	1.60	1.83	1.57	1.91	2.18
DB EPS FD (CNY)	1.47	1.71	1.46	1.80	2.06
OLD DB EPS FD (CNY)	1.47	1.71	1.72	2.10	2.30
% Change	0.0%	0.0%	-14.7%	-14.2%	-10.6%
DB EPS growth (%)	72.1	16.3	-14.1	22.9	14.3
PER (x)	13.6	12.1	14.4	11.7	10.2
EV/EBITDA (x)	7.7	6.6	9.2	6.7	6.6
DPS (net) (CNY)	1.50	1.00	0.79	0.96	1.09
Yield (net) (%)	7.5	4.9	3.7	4.6	5.2

Source: Deutsche Bank estimates, company data

#### Key indicators (FY1)

ROE (%)	24.5
Net debt/equity (%)	-11.2
Book value/share (CNY)	6.71
Price/book (x)	3.1
Net interest cover (x)	79.6
Operating profit margin (%)	12.6

Source: Deutsche Bank



Figure 1: Yutong - 1H17 results summary

(RMBm)	1H17	1H16	YoY	2Q17	2Q16	YoY	1Q17	QoQ
Gross revenue	9,313.1	13,268.1	-29.8%	5,444.6	8,141.3	-33.1%	3868.5	40.7%
Gross profit	2,251.7	3,242.4	-30.6%	1,352.1	2,022.3	-33.1%	899.6	50.3%
Gross profit margin	24.2%	24.4%		24.8%	24.8%		23.3%	
Operating profit	864.0	1,511.4	-42.8%	594.9	1024.3	-41.9%	269.1	121.1%
Operating profit margin	9.3%	11.4%		10.9%	12.6%		7.0%	
Net profit	805.1	1,235.3	-34.8%	488.8	856.8	-42.9%	316.2	54.6%
Net profit margin	8.6%	9.3%		9.0%	10.5%		8.2%	

Source: Company data

Figure 2: Yutong - key changes in forecast

	2017E			2018E			2019E		
	Old	New	% Chg	Old	New	% Chg	Old	New	% Chg
Sales volume (units)	74,278	66,740	-10.1%	83,068	75,412	-9.2%	90,551	83,723	-7.5%
- ICE bus	46,339	46,339	0.0%	47,265	47,265	0.0%	48,211	48,211	0.0%
- NEV bus	27,939	20,401	-27.0%	35,803	28,147	-21.4%	42,341	35,512	-16.1%
Revenue (RMBm)	35,843.4	31,082.6	-13.3%	40,443.3	35,837.1	-11.4%	42,003.0	38,416.7	-8.5%
Gross profit (RMBm)	9,304.8	8,101.3	-12.9%	10,687.9	9,508.2	-11.0%	11,293.0	10,369.5	-8.2%
Gross profit margin	26.1%	26.3%		26.5%	26.7%		27.0%	27.2%	
Net profit (RMBm)	4,082.0	3,503.9	-14.2%	4,940.4	4,296.8	-13.0%	5,499.6	4,933.8	-10.3%
Net profit margin	11.4%	11.4%		12.3%	12.1%		13.2%	12.9%	

Source: Deutsche Bank estimates



Figure 3: Yutong - key operating and financial assumptions

	2015	2016	2017E	2018E	2019E
<b>Sales volume (units)</b>					
ICE bus	46,573	44,132	46,339	47,265	48,211
YoY	-13.9%	-5.2%	5.0%	2.0%	2.0%
NEV bus	20,445	26,856	20,401	28,147	35,512
YoY	180.4%	31.4%	-24.0%	38.0%	26.2%
<b>ASP (RMB'000)</b>					
ICE bus	334	344	351	358	365
YoY	-2.2%	3.2%	2.0%	2.0%	2.0%
NEV bus	684	698	628	597	524
YoY	-9.8%	2.1%	-10.1%	-4.9%	-12.3%
<b>Revenue (RMBm)</b>	<b>31,211</b>	<b>35,850</b>	<b>31,083</b>	<b>35,837</b>	<b>38,417</b>
ICE bus	15,534	15,195	16,274	16,931	17,615
NEV bus	13,976	18,746	12,804	16,801	18,591
Others	1,701	1,910	2,005	2,105	2,211
<b>Gross profit (RMBm)</b>	<b>7,905</b>	<b>9,974</b>	<b>8,350</b>	<b>9,795</b>	<b>10,677</b>
ICE bus	3,495	3,419	3,743	3,894	4,051
NEV bus	3,934	6,079	4,108	5,382	6,086
Others	475	476	499	519	539
<b>Gross profit margin (%)</b>	<b>25.3%</b>	<b>27.8%</b>	<b>26.9%</b>	<b>27.3%</b>	<b>27.8%</b>
ICE bus	22.5%	22.5%	23.0%	23.0%	23.0%
NEV bus	28.2%	32.4%	32.1%	32.0%	32.7%
Others	27.9%	24.9%	24.9%	24.6%	24.4%

Source: Company data, Deutsche Bank estimates



Model updated: 28 August 2017

Running the numbers

Asia  
China  
Automobiles & Components

Yutong Bus

Reuters: 600066.SS Bloomberg: 600066.CH

Buy

Price (28 Aug 17) CNY 21.03  
Target Price CNY 25.20  
52 Week range CNY 19.18 - 23.09  
Market cap (m) CNYm 46,559 USDm 6,985.8

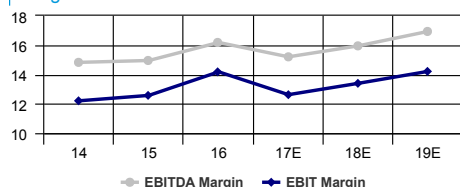
Company Profile

Zhengzhou Yutong Bus Co., Ltd. is a large-scale modern manufacturing company specialized in the R&D, manufacturing and sales of bus products. Its main plant is located in Zhengzhou Yutong Industrial Park, Zhengzhou, Henan province, which covers an area of 1.12 million square meters.

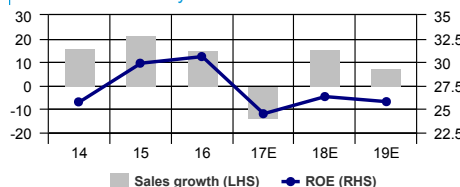
Price Performance



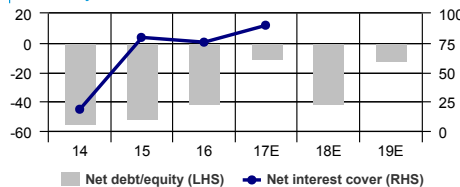
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Dec 2014 2015 2016 2017E 2018E 2019E

Financial Summary

DB EPS (CNY)	0.85	1.47	1.71	1.46	1.80	2.06
Reported EPS (CNY)	1.18	1.60	1.83	1.57	1.91	2.18
DPS (CNY)	0.67	1.50	1.00	0.79	0.96	1.09
BVPS (CNY)	4.9	5.8	6.1	6.7	7.8	9.1
Weighted average shares (m)	2,216	2,215	2,214	2,214	2,214	2,214
Average market cap (CNYm)	25,245	44,069	45,595	46,559	46,559	46,559
Enterprise value (CNYm)	19,115	35,762	38,385	43,291	37,713	42,594

Valuation Metrics

P/E (DB) (x)	13.4	13.6	12.1	14.4	11.7	10.2
P/E (Reported) (x)	9.7	12.5	11.3	13.4	11.0	9.7
P/BV (x)	2.96	3.87	3.19	3.13	2.68	2.32
FCF Yield (%)	5.1	10.7	6.8	nm	15.9	nm
Dividend Yield (%)	5.9	7.5	4.9	3.7	4.6	5.2
EV/Sales (x)	0.7	1.2	1.1	1.4	1.1	1.1
EV/EBITDA (x)	5.0	7.7	6.6	9.2	6.7	6.6
EV/EBIT (x)	6.1	9.2	7.6	11.1	7.9	7.9

Income Statement (CNYm)

Sales revenue	25,574	31,059	35,689	30,834	35,550	38,109
Gross profit	6,092	7,753	9,813	8,101	9,508	10,369
EBITDA	3,791	4,644	5,775	4,687	5,670	6,452
Depreciation	637	691	662	753	862	987
Amortisation	32	47	52	41	45	50
EBIT	3,122	3,906	5,061	3,892	4,762	5,415
Net interest income/(expense)	25	142	-275	-49	-63	-60
Associates/affiliates	0	0	29	0	0	0
Exceptionals/extraordinary	0	0	0	0	0	0
Other pre-tax income/(expense)	-96	56	-32	195	215	236
Profit before tax	3,051	4,104	4,782	4,039	4,914	5,591
Income tax expense	398	517	680	505	614	699
Minorities	40	52	59	50	61	69
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	2,613	3,535	4,044	3,484	4,239	4,823
DB adjustments (including dilution)	-725	-288	-268	-241	-253	-266
DB Net profit	1,888	3,247	3,776	3,243	3,986	4,557

Cash Flow (CNYm)

Cash flow from operations	3,205	6,010	3,532	-238	9,020	-826
Net Capex	-1,914	-1,294	-422	-1,421	-1,618	-1,844
Free cash flow	1,291	4,715	3,111	-1,658	7,402	-2,670
Equity raised/(bought back)	34	0	0	0	0	0
Dividends paid	-922	-1,608	-3,452	-2,214	-1,742	-2,120
Net inc/(dec) in borrowings	-195	-4	0	3,000	150	158
Other investing/financing cash flows	125	-2,293	-746	-70	-74	-77
Net cash flow	333	810	-1,087	-943	5,736	-4,710
Change in working capital	-410	1,427	-1,905	-4,687	3,651	-6,922

Balance Sheet (CNYm)

Cash and other liquid assets	6,016	6,699	5,616	4,674	10,410	5,700
Tangible fixed assets	4,586	4,657	4,629	5,135	5,715	6,378
Goodwill/intangible assets	940	1,464	1,458	1,582	1,718	1,868
Associates/investments	170	1,687	1,689	1,739	1,792	1,848
Other assets	12,111	15,633	21,762	21,265	25,514	24,436
Total assets	23,823	30,139	35,154	34,395	45,148	40,228
Interest bearing debt	0	0	0	3,000	3,150	3,308
Other liabilities	12,963	17,200	21,475	16,396	24,442	16,592
Total liabilities	12,963	17,200	21,475	19,396	27,592	19,899
Shareholders' equity	10,804	12,861	13,584	14,854	17,351	20,054
Minorities	56	79	95	145	206	275
Total shareholders' equity	10,861	12,939	13,679	14,999	17,557	20,329
Net debt	-6,016	-6,699	-5,616	-1,674	-7,260	-2,393

Key Company Metrics

Sales growth (%)	15.9	21.4	14.9	-13.6	15.3	7.2
DB EPS growth (%)	19.1	72.1	16.3	-14.1	22.9	14.3
EBITDA Margin (%)	14.8	15.0	16.2	15.2	15.9	16.9
EBIT Margin (%)	12.2	12.6	14.2	12.6	13.4	14.2
Payout ratio (%)	56.5	94.0	54.7	50.0	50.0	50.0
ROE (%)	25.8	29.9	30.6	24.5	26.3	25.8
Capex/sales (%)	7.5	4.2	1.2	4.6	4.6	4.8
Capex/depreciation (x)	2.9	1.8	0.6	1.8	1.8	1.8
Net debt/equity (%)	-55.4	-51.8	-41.1	-11.2	-41.3	-11.8
Net interest cover (x)	nm	nm	18.4	79.6	75.5	89.9

Source: Company data, Deutsche Securities estimates



# Appendix 1

## Important Disclosures

\*Other information available upon request

Disclosure checklist			
Company	Ticker	Recent price*	Disclosure
Yutong Bus	600066.SS	21.03 (CNY) 28 Aug 2017	NA

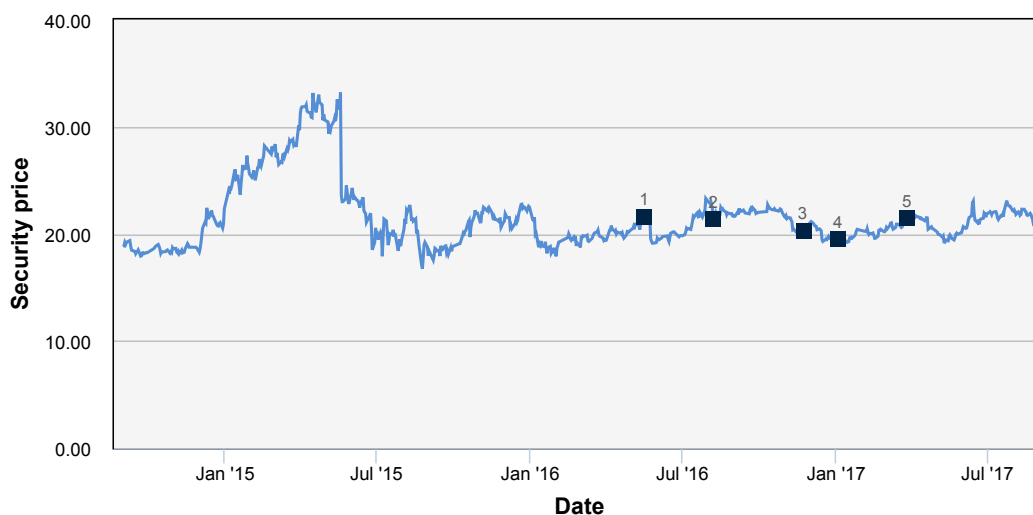
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## Historical recommendations and target price. Yutong Bus (600066.SS)

(as of 08/28/2017)



### Current Recommendations

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

\*\* Analyst is no longer at Deutsche Bank

1.	05/18/2016	Buy, Target Price Change CNY 25,90	Vincent Ha, CFA	4.	01/04/2017	Buy, Target Price Change CNY 22,60	Fei Sun, CFA
2.	08/08/2016	Buy, Target Price Change CNY 24,90	Vincent Ha, CFA	5.	03/28/2017	Buy, Target Price Change CNY 24,00	Fei Sun, CFA
3.	11/24/2016	Buy, Target Price Change CNY 24,00	Vincent Ha, CFA				



**Equity Rating Key**

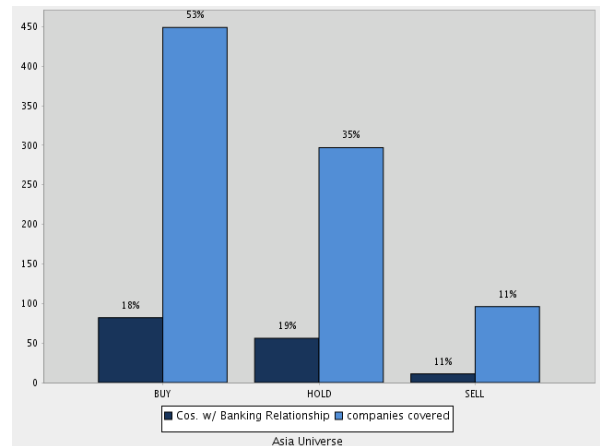
**Buy:** Based on a current 12- month view of total share-holder return (TSR = percentage change in share price from current price to projected target price plus pro-jected dividend yield ) , we recommend that investors buy the stock.

**Sell:** Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock.

**Hold:** We take a neutral view on the stock 12-months out and, based on this time horizon, do not recommend either a Buy or Sell.

Newly issued research recommendations and target prices supersede previously published research.

**Equity rating dispersion and banking relationships**





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Macroeconomic fluctuations often account for most of the risks associated with exposures to instruments that promise to pay fixed or variable interest rates. For an investor who is long fixed rate instruments (thus receiving these cash flows), increases in interest rates naturally lift the discount factors applied to the expected cash flows and thus cause a loss. The longer the maturity of a certain cash flow and the higher the move in the discount factor, the higher will be the loss. Upside surprises in inflation, fiscal funding needs, and FX depreciation rates are among the most common adverse macroeconomic shocks to receivers. But counterparty exposure, issuer creditworthiness, client segmentation, regulation (including changes in assets holding limits for different types of investors), changes in tax policies, currency convertibility (which may constrain currency conversion, repatriation of profits and/or the liquidation of positions), and settlement issues related to local clearing houses are also important risk factors to be considered. The sensitivity of fixed income instruments to macroeconomic shocks may be mitigated by indexing the contracted cash flows to inflation, to FX depreciation, or to specified interest rates – these are common in emerging markets. It is important to note that the index fixings may – by construction – lag or mis-measure the actual move in the underlying variables they are intended to track. The choice of the proper fixing (or metric) is particularly important in swaps markets, where floating coupon rates (i.e., coupons indexed to a typically short-dated interest rate reference index) are exchanged for fixed coupons. It is also important to acknowledge that funding in a currency that differs from the currency in which coupons are denominated carries FX risk. Naturally, options on swaps (swaptions) also bear the risks typical to options in addition to the risks related to rates movements.

Derivative transactions involve numerous risks including, among others, market, counterparty default and illiquidity risk. The appropriateness or otherwise of these products for use by investors is dependent on the investors' own circumstances including their tax position, their regulatory environment and the nature of their other assets and liabilities, and as such, investors should take expert legal and financial advice before entering into any transaction similar to or inspired by the contents of this publication. The risk of loss in futures trading and options, foreign or domestic, can be substantial. As a result of the high degree of leverage obtainable in futures and options trading, losses may be incurred that are greater than the amount of funds initially deposited. Trading in options involves risk and is not suitable for all investors. Prior to buying or selling an option investors must review the "Characteristics and Risks of Standardized Options", at <http://www.optionsclearing.com/about/publications/character-risks.jsp>. If you are unable to access the website please contact your Deutsche Bank representative for a copy of this important document.

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