



Rating  
**Hold**

Asia  
China

Automobiles & Components

Company  
**SAIC Motor**

Reuters 600104.SS    Bloomberg 600104 CH    Exchange SHH    Ticker 600104

Date  
30 August 2017

## Company Update

Price at 29 Aug 2017 (CNY)	30.20
Price target - 12mth (CNY)	29.10
52-week range (CNY)	32.69 - 21.13
Shanghai Composite	3,366

## 1H17 post-results conference call takeaways

SAIC Motor hosted a post-1H17-results conference call earlier today. Key takeaways are as follows:

- 2H17 outlook: SAIC now expects China auto sales to grow 5% YoY in FY17, with both passenger vehicle (PV) sales and commercial vehicle (CV) growing at 5%. In other words, the company foresees a pick-up in the 2H17 PV growth rate but a slowdown in 2H17 CV sales. Management attributes their slightly more positive PV outlook to 1) recent improving sales trends, 2) an economic growth recovery, 3) a potential last-minute sales rush before the tax stimulus ends, 4) increasing demand for new energy vehicles (NEVs) and 5) consumer upgrades. On the flip side, the company expects challenges such as increasing competition, consumers looking for product differentiation and a high base in the CV market.

- Profitability: Management attributes the consolidated 1H17 gross profit margin increase to product mix improvement, e.g. higher SUV sales in SAIC Volkswagen (SVW) and Cadillac sales in SAIC GM (SGM), but partially offset by price cuts. Due to slow PV market growth in 1H17, promotion cost was higher and that pushed up overall selling costs, together with a rise in logistics cost.

- Roewe local brand: The operation achieved a better profit in 1H17 at the manufacturing level (i.e. excluding R&D expenses) and the RX5 SUV helped sales. Going forward, the company will launch the RX3 SUV in 2H17E and more models in future years. The brand is going to roll out more connected car models (similar to i6 sedan and MG ZS SUV) and will consider capitalizing a part of its R&D in future years.

- SAIC-GM-Wuling: The JV has been successful in the transition, achieving strong growth in the Baojun brand (with popular products like the 510 SUV and 310 sedan), which offset weakening minicar demand. However, cost is still high in the transition phase. Going forward, management still sees demand upside for Baojun 510, with possible monthly sales of 40k units.

- SVW and SGM: The faster growth in earnings than volume was due to a mix improvement, with higher-margin SVW SUV, SGM MPV and SGM premium brand sales offsetting a high sales base and price pressure. Besides these, new SUVs from Skoda (Kodiaq) and Chevrolet (Equinox) helped enhance the brands' image.

### Valuation & Risks

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#### Key changes

TP	28.35 to 29.10	↑	2.6%
Sales (FYE)	851,052 to 834,359	↓	-2.0%
Op prof margin (FYE)	2.9 to 2.7	↓	-6.1%
Net profit (FYE)	35,406.1 to 35,382.9	↓	-0.1%

Source: Deutsche Bank

#### Price/price relative



Performance (%)	1m	3m	12m
Absolute	-0.5	2.0	35.7
Shanghai Composite	3.4	8.2	9.6

Source: Deutsche Bank

#### Key indicators (FY1)

ROE (%)	17.1
Net debt/equity (%)	-9.8
Book value/share (CNY)	19.09
Price/book (x)	1.6
Net interest cover (x)	-
Operating profit margin (%)	2.7

Source: Deutsche Bank



- NEV: SAIC sold over 14k Roewe brand NEVs (up 46% YoY) in 1H17, with 1Q17 sales hindered by a policy overhang. Going forward, SAIC will continue to focus on the development of NEVs and connected cars, with more models not only at local brands but also JVs. In terms of R&D, the company has commenced developing NEV-specific platforms and setting up JVs for batteries and electric control systems.

**DB view: stable earnings growth and high yield to support current valuation**

While SAIC management has become more upbeat in China auto sector's 2H17 demand outlook, we do not expect much of a YoY sales pick-up and hence cut our FY17-19 net revenue forecasts by 2.0-3.3% on lower sales assumptions for the consolidated businesses. Meanwhile, we trim our FY17-19 net profit forecasts marginally by 0.1-1.0%, with lower sales expectations partly offset by higher JV margin assumptions. We value SAIC Motor at 9x FY18E P/E (from 9x FY17/18E), which is above the company's historical trading average. This is justified, in our view, as we expect SAIC to achieve a three-year net profit CAGR of 7% in FY16-19E. On a P/BV basis, we believe the company's implied FY18E target P/BV of 1.4x is justified, considering its 15-16% sustainable ROE. Despite an attractive yield, we do not see share price upside and maintain our Hold rating. Key company downside risks include: 1) a weak reception for its new models from various SAIC brands; 2) pricing pressure amid industry competition; and 3) worse-than-expected local brand profitability. Key upside risks include: 1) better-than-expected sales volume and pricing; and 2) better-than-expected local brand profitability.

Figure 1: SAIC - changes in key assumptions

	2017E	2018E	2019E
<b>Sales volume (incl. JVs) (units)</b>			
New	6,527,197	6,787,741	6,987,355
Old	6,815,617	7,134,207	7,356,356
% Chg	-4.2%	-4.9%	-5.0%
<b>Net revenue (RMBm)</b>			
New	834,359	885,810	924,819
Old	851,052	915,246	956,870
% Chg	-2.0%	-3.2%	-3.3%
<b>Profit contribution from JVs (RMBm)</b>			
New	29,068	30,253	31,179
Old	29,461	31,285	32,357
% Chg	-1.3%	-3.3%	-3.6%
<b>Net profit (RMBm)</b>			
New	35,383	37,772	39,675
Old	35,406	38,148	40,089
% Chg	-0.1%	-1.0%	-1.0%

Source: Company data, Deutsche Bank estimates



Figure 2: SAIC - Major assumptions in Deutsche Bank's forecasts

	2014	2015	2016	2017E	2018E	2019E
<b>Sales volume (units)</b>						
Passenger vehicles	5,256,911	5,552,728	6,116,448	6,119,273	6,366,203	6,553,846
YoY	10.5%	5.6%	10.2%	0.0%	4.0%	2.9%
Commercial vehicles (units)	363,287	349,160	372,419	407,924	421,538	433,509
YoY	3.8%	-3.9%	6.7%	9.5%	3.3%	2.8%
<b>Total</b>	<b>5,620,198</b>	<b>5,901,888</b>	<b>6,488,867</b>	<b>6,527,197</b>	<b>6,787,741</b>	<b>6,987,355</b>
YoY	10.1%	5.0%	9.9%	0.6%	4.0%	2.9%
Net revenue (RMBm)	626,244	663,904	748,895	834,359	885,810	924,819
YoY	11.4%	6.0%	12.8%	11.4%	6.2%	4.4%
Operating profit (RMBm)	16,715	16,812	20,730	22,904	27,115	30,606
YoY	-4.9%	0.6%	23.3%	10.5%	18.4%	12.9%
JV/associate earnings (RMBm)	25,301	26,631	27,751	29,068	30,253	31,179
YoY	13.6%	5.3%	4.2%	4.7%	4.1%	3.1%
Net profit (RMBm)	27,973	29,794	32,009	35,383	37,772	39,675
YoY	12.8%	6.5%	7.4%	10.5%	6.8%	5.0%

Source: Company data, Deutsche Bank estimates

Forecasts and ratios

Year End Dec 31	2015A	2016A	2017E	2018E	2019E
Sales (CNYm)	663,904.0	748,895.4	834,359.0	885,810.1	924,818.9
EBITDA (CNYm)	23,055.3	28,629.0	34,181.9	39,722.3	44,409.8
Reported NPAT (CNYm)	29,793.8	32,008.6	35,382.9	37,772.2	39,674.5
Reported EPS FD (CNY)	2.70	2.90	3.04	3.23	3.40
DB EPS FD (CNY)	2.48	2.75	3.04	3.23	3.40
OLD DB EPS FD (CNY)	2.48	2.75	3.04	3.27	3.43
% Change	0.0%	0.0%	-0.1%	-1.0%	-1.0%
DB EPS growth (%)	5.5	11.0	10.4	6.4	5.0
PER (x)	8.6	7.7	9.9	9.3	8.9
EV/EBITDA (x)	5.2	3.8	6.1	5.1	4.4
DPS (net) (CNY)	1.36	1.75	1.82	1.94	2.04
Yield (net) (%)	6.4	8.2	6.0	6.4	6.7

Source: Deutsche Bank estimates, company data



# Appendix 1

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\*Other information available upon request

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SAIC Motor	600104.SS	30.20 (CNY) 29 Aug 2017	NA

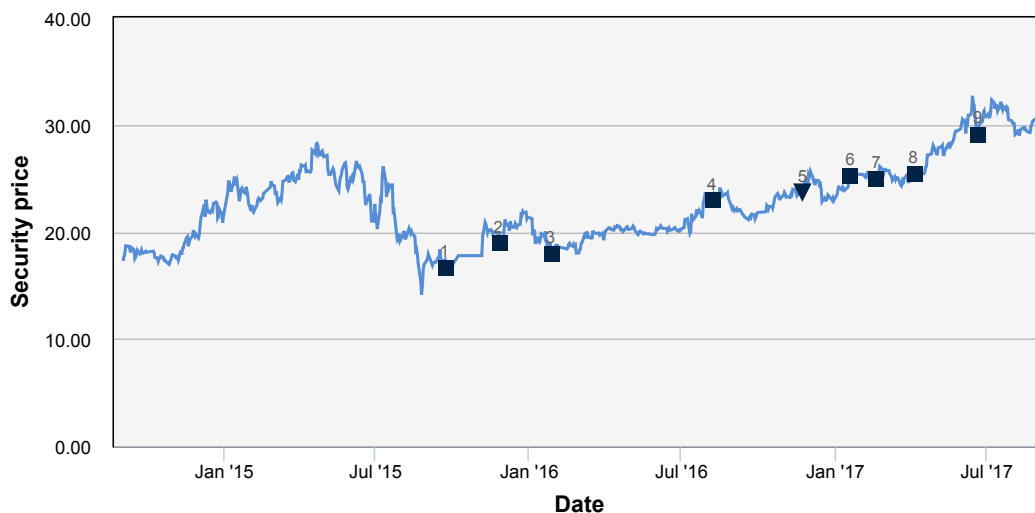
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## Historical recommendations and target price. SAIC Motor (600104.SS)

(as of 08/29/2017)



### Current Recommendations

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

\*\* Analyst is no longer at Deutsche Bank

1.	09/24/2015	Buy, Target Price Change CNY 20,50	Vincent Ha, CFA	6.	01/20/2017	Hold, Target Price Change CNY 23,85	Vincent Ha, CFA
2.	11/27/2015	Buy, Target Price Change CNY 23,20	Vincent Ha, CFA	7.	02/20/2017	Hold, Target Price Change CNY 25,30	Vincent Ha, CFA
3.	01/28/2016	Buy, Target Price Change CNY 23,80	Vincent Ha, CFA	8.	04/06/2017	Hold, Target Price Change CNY 25,70	Vincent Ha, CFA
4.	08/08/2016	Buy, Target Price Change CNY 25,25	Vincent Ha, CFA	9.	06/21/2017	Hold, Target Price Change CNY 28,35	Vincent Ha, CFA
5.	11/24/2016	Downgraded to Hold, Target Price Change CNY 24,35	Vincent Ha, CFA				



### Equity Rating Key

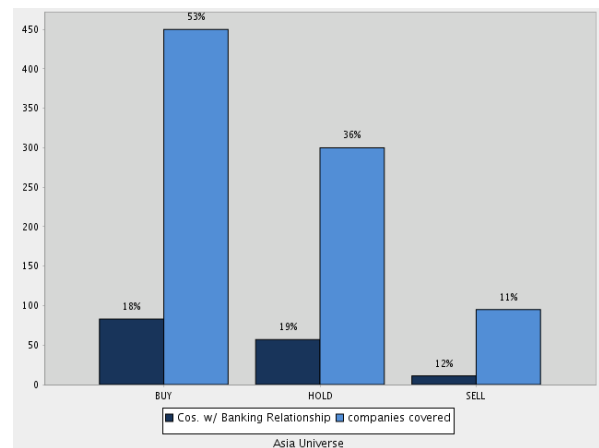
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**Sell:** Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock.

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