



Rating
Buy

Asia
China

Automobiles & Components

Company

Huayu Automotive

Reuters
600741.SS

Bloomberg
600741 CH

Exchange
SHH

Ticker
600741

Date
26 October 2017

Forecast Change

Price at 26 Oct 2017 (CNY)	25.55
Price target - 12mth (CNY)	27.20
52-week range (CNY)	26.27 - 15.62
Shanghai Composite	3,398

3Q17 profit in line; top-line growth mitigates increasing expenses

13% YoY earnings growth with flat margin despite SG&A expense expansion

3Q17 gross revenue edged up by 12.1% YoY to RMB35.4bn. The revenue growth was likely driven by production growth and new model launches from key OEM customers and good momentum on overseas business. Meanwhile, Huayu's 3Q17 gross profit grew 12.4% YoY to RMB4.7bn with a mild 6bps YoY gross profit margin expansion. Together with 10.3% YoY growth in profit contribution from its JVs/associates, but partially offset by 18.8% YoY jump in SG&A expenses, 3Q17 net profit increased by 12.9% YoY to RMB1.6bn. On a 9M17 basis, Huayu's net profit of RMB4.8bn was up 7.8% YoY and accounted for 72% of our previous full-year FY17 earnings forecasts of RMB6.7bn (73% of Bloomberg consensus). Therefore, we consider the results in line with our expectation.

Deutsche Bank view – favorable outlook intact with attractive valuation

We raise our FY17E revenue by 1.5% to reflect slightly better-than-expected 3Q17 revenue growth. However, with lower margin assumptions, we adjust down our FY17E earnings forecasts by 0.7%. For FY18-19E, we increase revenue forecast by 9.0-9.3% and net profit by 0.6-2.1% to factor in the impact from recent acquisition of the remaining 50% stake in Shanghai Koito auto lamp JV.

Our TP is based on 12x FY18E P/E (from 10.5x, given the sector re-rating over the past few months), in-line with Huayu's mid-cycle P/E of 12x. This is justified as we expect Huayu to deliver a 12.8% FY16-19E three-year net profit CAGR. The expanding overseas sales of interior trim subsidiary Yanfeng and acquisition of auto lamp business should provide an additional growth driver. Maintain Buy on attractive FY18E P/E of 11.3x and 4.8% dividend yield. Key downside risks: weaker auto sales and unexpected increase in raw material prices.

Valuation & Risks

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Key changes

TP	23.70 to 27.20	↑	14.8%
Sales (FYE)	136,631 to 138,622	↑	1.5%
Op prof margin (FYE)	4.5 to 4.3	↓	-2.3%
Net profit (FYE)	6,692.4 to 6,648.0	↓	-0.7%

Source: Deutsche Bank

Price/price relative



Performance (%)	1m	3m	12m
Absolute	17.1	19.6	59.3
Shanghai Composite	1.6	4.6	9.0

Source: Deutsche Bank

Key indicators (FY1)

ROE (%)	16.7
Net debt/equity (%)	47.8
Book value/share (CNY)	13.19
Price/book (x)	1.9
Net interest cover (x)	–
Operating profit margin (%)	4.3

Source: Deutsche Bank

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Figure 1: Huayu Automotive - quarterly results summary

	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17
Gross revenue (RMBm)	31,737.1	29,602.7	31,546.4	31,409.7	34,002.2	34,391.8	35,351.6
YoY (%)	32.4%	27.2%	27.7%	-6.4%	7.1%	16.2%	12.1%
Gross profit (RMBm)	4,193.4	4,046.5	4,194.2	5,238.3	4,826.4	4,577.6	4,713.6
YoY (%)	31.6%	20.9%	23.2%	29.6%	15.1%	13.1%	12.4%
Gross profit margin (%)	13.3%	13.7%	13.3%	16.8%	14.3%	13.4%	13.4%
JVs/associates contribution (RMB)	794.8	821.9	797.3	934.9	973.3	924.8	879.4
YoY (%)	10.5%	5.0%	55.4%	19.1%	22.5%	12.5%	10.3%
Net profit (RMBm)	1,427.1	1,636.6	1,403.2	1,608.8	1,528.7	1,704.2	1,583.6
YoY (%)	3.1%	8.7%	28.2%	28.9%	7.1%	4.1%	12.9%
Net profit margin (%)	4.5%	5.5%	4.4%	5.2%	4.5%	5.0%	4.5%

Source: Company data, Deutsche Bank



Model updated: 26 October 2017

Fiscal year end 31-Dec

2014 2015 2016 2017E 2018E 2019E

Running the numbers

Asia

China

Automobiles & Components

Huayu Automotive

Reuters: 600741.SS Bloomberg: 600741 CH

Buy

Price (26 Oct 17) CNY 25.55

Target Price CNY 27.20

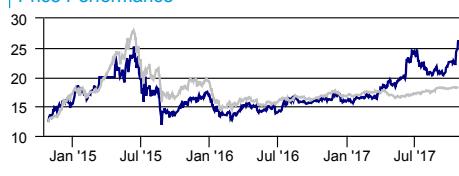
52 Week range CNY 15.62 - 26.27

Market cap (m) CNYm 80,552
USDm 12,127

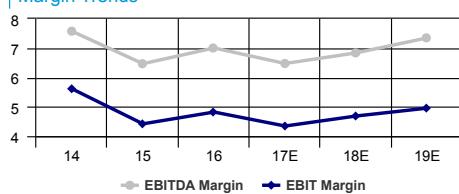
Company Profile

Huayu Automotive Systems Company Limited (HASCO) manufactures and sells auto parts, with six core business divisions such as metal forming & dies, interior & exterior trimming, electric and electronics parts, function parts, hot-worked parts and new energy parts. Huayu's parent and controlling shareholder is Shanghai Automotive Industry Corporation (Group).

Price Performance



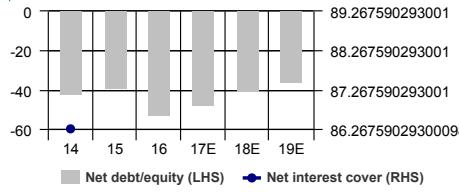
Margin Trends



Growth & Profitability



Solvency



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Financial Summary

	2014	2015	2016	2017E	2018E	2019E
DB EPS (CNY)	1.57	1.67	1.82	1.92	2.27	2.56
Reported EPS (CNY)	1.72	2.03	1.93	2.11	2.47	2.76
DPS (CNY)	0.52	0.99	1.00	1.05	1.23	1.38
BVPS (CNY)	9.1	11.9	12.1	13.2	14.6	16.1
Weighted average shares (m)	2,583	2,583	3,153	3,153	3,153	3,153
Average market cap (CNYm)	28,359	46,358	48,024	80,552	80,552	80,552
Enterprise value (CNYm)	7,758	24,383	16,368	49,006	50,559	51,313

Valuation Metrics

	7.0	10.7	8.4	13.3	11.3	10.0
P/E (DB) (x)	7.0	10.7	8.4	13.3	11.3	10.0
P/E (Reported) (x)	6.4	8.9	7.9	12.1	10.4	9.2
P/BV (x)	1.69	1.42	1.32	1.94	1.75	1.58
FCF Yield (%)	10.4	6.6	15.1	2.4	1.0	2.3
Dividend Yield (%)	4.7	5.5	6.6	4.1	4.8	5.4
EV/Sales (x)	0.1	0.2	0.1	0.4	0.3	0.3
EV/EBITDA (x)	1.4	3.6	1.9	5.5	4.6	4.2
EV/EBIT (x)	1.9	5.3	2.7	8.1	6.8	6.2

Income Statement (CNYm)

Sales revenue	73,756	104,975	123,747	138,622	159,678	167,186
Gross profit	11,199	13,983	17,672	19,610	22,895	24,169
EBITDA	5,587	6,791	8,667	8,977	10,917	12,285
Depreciation	1,077	1,835	2,335	2,709	3,167	3,711
Amortisation	368	315	364	242	264	288
EBIT	4,142	4,641	5,968	6,026	7,486	8,286
Net interest income(expense)	-48	64	120	148	147	128
Associates/affiliates	2,455	2,800	3,349	3,938	4,268	4,965
Exceptionals/extraordinaries	0	0	0	0	0	0
Other pre-tax income(expense)	433	831	424	621	650	680
Profit before tax	6,982	8,336	9,861	10,732	12,550	14,059
Income tax expense	786	950	1,278	1,342	1,569	1,757
Minorities	1,740	2,153	2,507	2,743	3,207	3,593
Other post-tax income(expense)	0	0	0	0	0	0
Net profit	4,456	5,233	6,076	6,648	7,774	8,709
DB adjustments (including dilution)	-394	-907	-337	-587	-616	-647
DB Net profit	4,061	4,325	5,739	6,061	7,158	8,062

Cash Flow (CNYm)

Cash flow from operations	6,094	6,631	11,375	7,369	7,138	9,260
Net Capex	-3,155	-3,584	-4,125	-5,439	-6,336	-7,398
Free cash flow	2,939	3,047	7,250	1,930	802	1,863
Equity raised/bought back	0	0	0	0	0	0
Dividends paid	-1,343	-2,554	-3,153	-3,324	-3,887	-4,354
Net inc/(dec) in borrowings	-729	-719	884	-280	-252	-227
Other investing/financing cash flows	1,214	428	5,465	1,982	2,530	2,773
Net cash flow	2,081	203	10,446	308	-807	55
Change in working capital	859	-83	3,315	-1,308	-3,247	-2,297

Balance Sheet (CNYm)

Cash and other liquid assets	15,659	19,395	29,895	30,203	29,396	29,450
Tangible fixed assets	9,449	15,884	18,250	20,817	23,790	27,246
Goodwill/intangible assets	1,751	2,557	2,675	2,816	2,976	3,156
Associates/investments	13,524	13,923	15,110	17,154	19,363	21,921
Other assets	22,857	39,223	41,681	47,963	53,558	53,829
Total assets	63,242	90,983	107,612	118,953	129,083	135,602
Interest bearing debt	3,684	4,894	5,602	5,322	5,069	4,843
Other liabilities	31,040	48,983	56,166	61,550	64,275	62,606
Total liabilities	34,724	53,877	61,768	66,872	69,344	67,449
Shareholders' equity	23,619	30,656	38,097	41,592	46,042	50,864
Minorities	4,899	6,450	7,747	10,490	13,697	17,290
Total shareholders' equity	28,517	37,106	45,844	52,082	59,739	68,154
Net debt	-11,975	-14,501	-24,293	-24,881	-24,326	-24,608

Key Company Metrics

Sales growth (%)	6.0	42.3	17.9	12.0	15.2	4.7
DB EPS growth (%)	25.0	6.5	8.7	5.6	18.1	12.6
EBITDA Margin (%)	7.6	6.5	7.0	6.5	6.8	7.3
EBIT Margin (%)	5.6	4.4	4.8	4.3	4.7	5.0
Payout ratio (%)	30.1	48.8	51.9	50.0	50.0	50.0
ROE (%)	21.0	19.3	17.7	16.7	17.7	18.0
Capex/sales (%)	4.6	3.6	3.6	4.0	4.0	4.5
Capex/depreciation (x)	2.4	1.8	1.7	1.9	1.9	1.9
Net debt/equity (%)	-42.0	-39.1	-53.0	-47.8	-40.7	-36.1
Net interest cover (x)	86.3	nm	nm	nm	nm	nm

Source: Company data, Deutsche Securities estimates



Appendix 1

Important Disclosures

*Other information available upon request

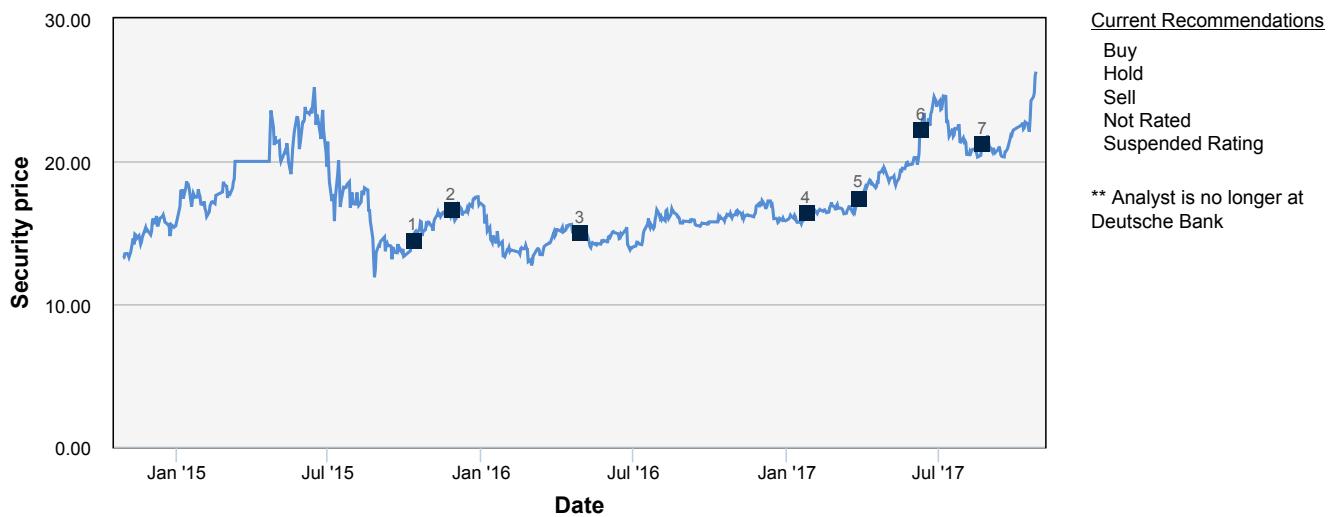
Disclosure checklist		Recent price*	Disclosure
Company	Ticker		
Huayu Automotive	600741.SS	25.55 (CNY) 26 Oct 2017	NA
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Historical recommendations and target price. Huayu Automotive (600741.SS)

(as of 10/26/2017)



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2. 11/27/2015 Buy, Target Price Change CNY 18,90 Vincent Ha, CFA
3. 04/29/2016 Buy, Target Price Change CNY 18,40 Fei Sun, CFA
4. 01/25/2017 Buy, Target Price Change CNY 19,40 Fei Sun, CFA

5. 03/29/2017 Buy, Target Price Change CNY 20,30 Fei Sun, CFA
6. 06/11/2017 Buy, Target Price Change CNY 24,30 Vincent Ha, CFA
7. 08/24/2017 Buy, Target Price Change CNY 23,70 Fei Sun, CFA



Equity Rating Key

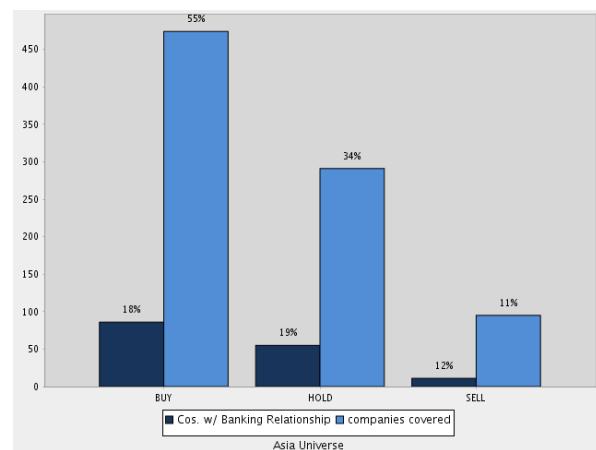
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Sell: Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock.

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