



Rating
Buy

Asia
China

Automobiles & Components

Company
Yutong Bus

Reuters 600066.SS Bloomberg 600066 CH Exchange SHH Ticker 600066

Date
8 January 2018

Company Update

Price at 8 Jan 2018 (CNY)	24.24
Price target - 12mth (CNY)	26.60
52-week range (CNY)	26.74 - 19.18
Shanghai Composite	3,392

Access China conference highlights 2018

Yutong Bus attended our Access China Conference on 8 January. The following are the key takeaways from investor meetings:

- Yutong sold 67,568 units of buses in 2017 (-5% YoY), including c.25k units of new energy (NEV) buses. Among the total NEV bus sales volume, c.90% was public buses. According to Yutong, it recorded over 10% YoY NEV bus volume growth in 4Q17. However, pricing has been trending lower in 4Q17.

- Management expects the company to achieve a 27-28% market share in NEV bus market in 2017 (33% in total bus market including conventional buses), a slight YoY increase with industry NEV bus sales declining more than 10% YoY.

- For 2018E, the company believes it will continue to outgrow the overall market and remains positive on NEV bus sales in 1Q18 given the delay of the subsidy cut.

- The company will strive to maintain the relatively stable profitability of its NEV buses and expects to partially mitigate the negative impact from the reduced NEV bus subsidy through raising net-subsidy selling price and supplier cost reduction (i.e. battery cost).

- Management comments that about 60% of the public transportation bus sold in 2017 were NEV buses. Despite the cuts in NEV bus subsidy in 2018-20, the company believes that the public transportation field would still be government's main focus to promote the country's vehicle electrification in future.

- Yutong believes the recently announced new subsidy policy provides great opportunities to industry leaders with advanced technology, such as Yutong, to further gain market share in the NEV bus market. It has been investing in NEV field for many years already and its NEV products offer better user experience and lower full life cycle maintenance costs compared to competitors.

Deutsche Bank view - maintain Buy on increasing contribution from NEV bus

Despite the impact on margin due to possibly lower subsidies in 2018, we believe that major NEV makers such as Yutong can probably mitigate this in the long run by lowering production costs (e.g. battery and scale effects). Maintain Buy given our optimism on Yutong's increasing profit contribution from NEV bus segment. Our target price is based on 14x FY18E P/E (unchanged), c.30% above Yutong's

Valuation & Risks

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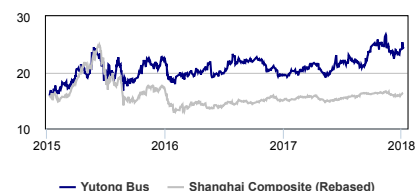
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Price/price relative



Performance (%)	1m	3m	12m
Absolute	8.2	-1.5	24.1
Shanghai Composite	3.1	1.3	7.5

Source: Deutsche Bank

Key indicators (FY1)

ROE (%)	25.4
Net debt/equity (%)	-10.6
Book value/share (CNY)	6.77
Price/book (x)	3.6
Net interest cover (x)	79.7
Operating profit margin (%)	12.9

Source: Deutsche Bank

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mid-cycle P/E of 11x to reflect our optimism 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	31,521.6	36,465.1	39,149.8
EBITDA (CNYm)	4,644.1	5,774.6	4,853.7	5,884.8	6,699.8
Reported NPAT (CNYm)	3,535.2	4,043.7	3,626.0	4,428.8	5,053.9
Reported EPS FD (CNY)	1.60	1.83	1.64	2.00	2.28
DB EPS FD (CNY)	1.47	1.71	1.53	1.90	2.19
DB EPS growth (%)	72.1	16.3	-10.4	24.4	15.4
PER (x)	13.6	12.1	15.9	12.7	11.0
EV/EBITDA (x)	7.7	6.6	10.4	7.3	6.9
DPS (net) (CNY)	1.50	1.00	0.16	0.20	0.23
Yield (net) (%)	7.5	4.9	0.7	0.8	0.9

Source: Deutsche Bank estimates, company data



Appendix 1

Important Disclosures

*Other information available upon request

Disclosure checklist			
Company	Ticker	Recent price*	Disclosure
Yutong Bus	600066.SS	24.24 (CNY) 8 Jan 2018	14

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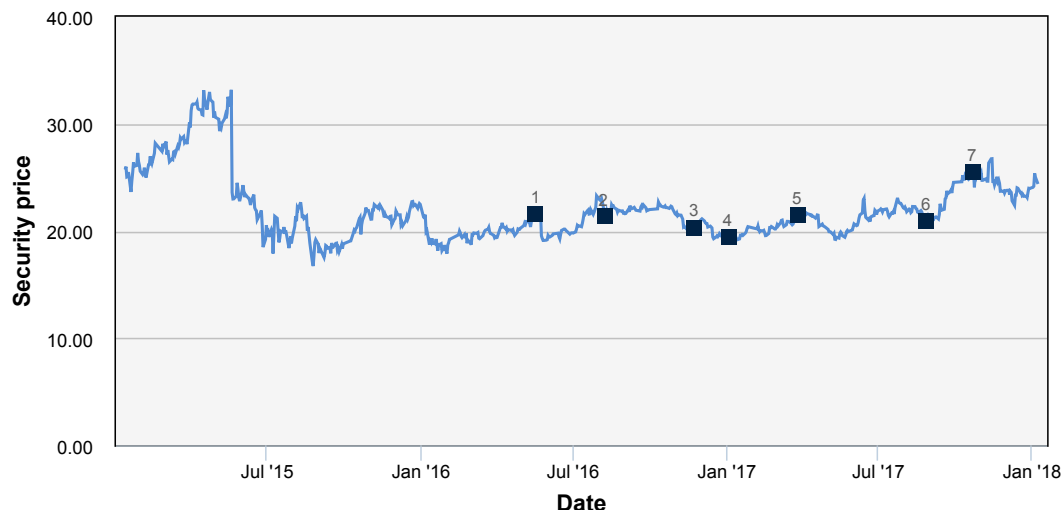
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Historical recommendations and target price. Yutong Bus (600066.SS)

(as of 01/08/2018)



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	5.	03/28/2017	Buy, Target Price Change CNY 24,00 Fei Sun, CFA
2.	08/08/2016	Buy, Target Price Change CNY 24,90 Vincent Ha, CFA	6.	08/28/2017	Buy, Target Price Change CNY 25,20 Fei Sun, CFA
3.	11/24/2016	Buy, Target Price Change CNY 24,00 Vincent Ha, CFA	7.	10/23/2017	Buy, Target Price Change CNY 26,60 Fei Sun, CFA
4.	01/04/2017	Buy, Target Price Change CNY 22,60 Fei Sun, CFA			

Equity Rating Key

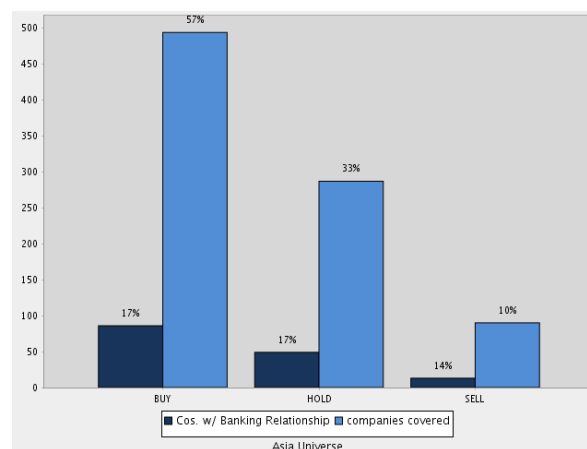
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Sell: Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock.

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