SAIC Motor (600104 CH)

Market sentiment is rising on A-share auto

In the first three quarters, SAIC achieved total revenue of RMB498.7bn, down 14.8% YoY while NP was RMB16.7bn, down 19.9% YoY. In 3Q20, revenue was RMB214.9bn, an increase of 2.8% YoY while NP was RMB8.3bn, an increase of 17.4% YoY. We raise our TP to RMB33.9 (based on 13.5x 2021E P/E) with an upside of 23.3%, from TP RMB21.1 based on 11.5x 2020E P/E. **Upgrade to BUY.**

- **In 3Q20, GPM was 11.0%, down 2.4ppt YoY, reflecting intensified market competition.** The expense ratio was 9.6%, down 2.3ppt YoY (tax exp -0.1ppt, S&D exp -2.0ppt, Admin exp -0.3ppt). The decrease in S&D exp ratio was mainly due to 1) implementation of the new accounting standard in the current period which moves the car loan interest subsidy from S&D expense to revenue recognition offset; and 2) the YoY decrease of logistic expense and advertising expense.
- **SAIC achieved a total investment income of RMB8.9bn in 3Q20, an increase of 19% YoY.** Among which, investment income from JVs and associates was RMB6.6bn, an increase of 2.9% YoY. SAIC Volkswagen achieved sales of 454K units in 3Q20, down 4% YoY. SAIC GM achieved sales of 395K units, an increase of 3% YoY. We believe the main factor which contributes to YoY earning growth in 3Q20 was still the investment income from financial assets.
- **The sales performance of major JVs is still mixed.** SAIC Volkswagen launched a mid-term facelift version Santana in Oct (-23% YoY in 3Q20). At the end of Oct, the first BEV based on the MEB platform, namely ID.4 was put into production. We expect both new models to drive the recovery of the Volkswagen brand. However, the Skoda brand fell 29% YoY in 3Q20, which is still expected to drag down the recovery of SAIC Volkswagen in the short-term. For SAIC-GM, the sales volume of Excelle (英朗) in Sep exceeded 30K units after the re-launch of four-cylinder version. As a result, Buick achieved a 30% YoY growth in 3Q20. The sales of high-end brand Cadillac increased by 75% YoY given the strong performance in overall luxury segment. However, due to lack of brand power, Chevrolet declined by 47% YoY, dragged down the overall performance of SAIC GM.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	902,194	843,324	782,967	809,538	838,801
YoY growth (%)	3.62%	-6.53%	-7.16%	3.39%	3.61%
Net income (RMB mn)	36,009	25,603	24,104	29,347	34,806
EPS (RMB)	3.08	2.19	2.06	2.51	2.98
YoY growth (%)	3.08	2.33	1.94	2.40	2.60
Consensus EPS(RMB)	4%	-29%	-6%	22%	19%
P/E (x)	8.44	11.86	12.60	10.35	8.73
P/B (x)	1.30	1.22	1.09	0.97	0.85
Yield (%)	7.04%	3.38%	3.79%	3.57%	4.35%
ROE (%)	15.67%	10.58%	9.12%	9.91%	10.40%
Net gearing (%)	17%	21%	19%	17%	12%

Source: Company data, Bloomberg, CMBIS estimates

BUY (Up)

Target Price	**RMB33.9**
(Previous TP	RMB21.1)
Up/Downside	**+23.3%**
Current Price	**RMB27.5**

China Auto Sector

Jack Bai
(852) 3900 0835
jackbai@cmbi.com.hk

Stock Data

Mkt Cap (mn)	321,295
3-mth average daily turnover (mn)	1,052.52
52-week high/low	27.54/16.61
Equity share - 600104 CH	11,683

Source: Wind

Shareholding Structure

Shanghai Automotive Industry (Group) Corporation	71.24%
Yuejin Automobile Group Corporation	3.54%
Hong Kong Central Clearing Company Limited	3.34%

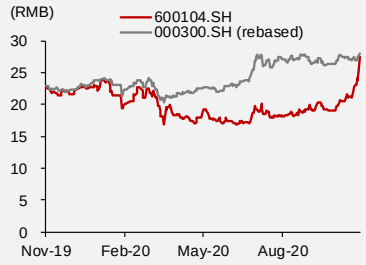
Source: Company data

Share Performance

	Absolute	Relative
1-mth	43.8%	35.0%
3-mth	51.2%	47.8%
6-mth	53.0%	22.5%

Source: Wind

12-mth Price Performance



Source: Wind

Auditor: Deloitte Touche Tohmatsu

Related Reports

1. "SAIC Motor (600104 CH) – Wait for the turning point of two GMs" – 15 Apr 2020
2. "SAIC Motor (600104 CH) – China's largest automobile group with great resilience" – 3 Oct 2019

- **The realization of certain catalysts gradually boosts market sentiment.** SAIC Volkswagen officially released its first model ID.4 based on the MEB platform, marking a milestone on Volkswagen's NEV roadmap in China market. We expect the market will re-evaluate SAIC's NEV presence after the rollout of the "Development Plan for New Energy Vehicle Industry (2021~2035). In addition, we expect SAIC Audi project will have news coming out in 2021E. Forming the two-pillar (Audi + Cadillac) among the high-end brand will further enhance market sentiment on SAIC.
- **We raise our bottom-line forecast to RMB24.1bn in 2020E to reflect the strong 3Q20 results.** Our revised NP forecast suggests that SAIC's bottom-line will grow 55% YoY in 4Q20E. At the same time, we revised up our NP forecast to RMB29.3bn in 2021E to reflect its great cost control. We raise our TP to RMB33.9 (based on 13.5x 2021E P/E) with an upside of 23.3% from initial TP RMB21.1 (based on initial 11.5x 2020E P/E). **Upgrade to BUY.**

Earnings Revision

Figure 1: Earnings revision

(RMB mn)	New		Old		Change (%)	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	782,967	809,538	787,335	814,806	-1%	-1%
Gross profit	93,932	105,232	106,044	113,848	-11%	-8%
Net profit	24,104	29,347	21,478	26,755	12%	10%
EPS (RMB)	2.06	2.51	1.84	2.29	12%	10%
Gross margin	12.00%	13.00%	13.47%	13.97%	-1.5 ppt	-1.0 ppt
Net Margin	3.08%	3.63%	2.73%	3.28%	0.3 ppt	0.3 ppt

Source: Company data, CMBIS estimates

Figure 2: CMBIS estimates vs consensus

(RMB mn)	CMBIS		Consensus		Diff (%)	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	782,967	809,538	766,233	835,060	2%	-3%
Gross profit	93,932	105,232	99,706	114,733	-6%	-8%
Net profit	24,104	29,347	22,524	27,659	7%	6%
EPS (RMB)	2.06	2.51	1.94	2.40	6%	5%
Gross margin	12.00%	13.00%	13.01%	13.74%	-1.0 ppt	-0.7 ppt
Net Margin	3.08%	3.63%	2.94%	3.31%	0.1 ppt	0.3 ppt

Source: Bloomberg, CMBIS estimates

Figure 3: Revenue breakdown

(RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Automobile manufacturing industry	**667,308**	**613,341**	**561,562**	**578,874**	**598,789**
…YoY	*2%*	*-8%*	*-8%*	*3%*	*3%*
SAIC-Volkswagen	259,301	235,950	207,329	221,013	231,069
…YoY	*1%*	*-9%*	*-12%*	*7%*	*5%*
SAIC-GM	224,444	187,821	175,800	174,869	179,267
…YoY	*-2%*	*-16%*	*-6%*	*-1%*	*3%*
Other	183,563	189,570	178,432	182,992	188,453
…YoY	*6%*	*3%*	*-6%*	*3%*	*3%*
Auto-parts manufacturing industry	**175,460**	**164,853**	**153,313**	**156,380**	**159,507**
…YoY	*11%*	*-6%*	*-7%*	*2%*	*2%*
Commercial services	**9,521**	**10,575**	**11,104**	**12,214**	**13,436**
…YoY	*-17%*	*11%*	*5%*	*10%*	*10%*
Other	**35,337**	**37,760**	**38,515**	**40,826**	**43,276**
…YoY	*14%*	*7%*	*2%*	*6%*	*6%*
Financial services and others	**14,568**	**16,794**	**18,473**	**21,244**	**23,794**
…YoY	*15%*	*15%*	*10%*	*15%*	*12%*
Total	**902,194**	**843,323**	**782,967**	**809,538**	**838,801**
…YoY	***4%***	***-7%***	***-7%***	***3%***	***4%***

Source: Company data, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	**902,194**	**843,324**	**782,967**	**809,538**	**838,801**
Cost of sales	(773,878)	(730,588)	(689,036)	(704,306)	(721,154)
Gross profit	**128,316**	**112,737**	**93,932**	**105,232**	**117,647**
Taxes and levies	(7,463)	(6,610)	(5,872)	(6,476)	(6,501)
S&D expenses	(63,423)	(57,451)	(39,148)	(42,096)	(46,134)
Administrative expenses	(21,336)	(22,308)	(20,357)	(21,858)	(22,648)
R&D expenses	(15,385)	(13,394)	(13,310)	(14,899)	(14,849)
Finance expenses	(195)	(24)	(666)	(676)	(572)
Impairment losses	(3,490)	(3,507)	(3,256)	(3,367)	(3,489)
Other income	3,126	4,379	3,523	3,238	3,355
Investment income	33,126	24,901	21,091	23,174	24,218
P/L from disposal	371	1,594	1,429	1,477	1,530
FX G/L	29	30	78	81	84
Non-operating income	1,125	767	235	1,619	1,258
Non-operating expenses	(455)	(154)	(157)	(24)	(25)
Profit before income tax	**54,344**	**40,958**	**37,521**	**45,425**	**53,875**
Income tax expense	(5,939)	(5,669)	(4,503)	(5,224)	(6,196)
Profit for the year	**48,405**	**35,289**	**33,019**	**40,201**	**47,680**
Less: MI	12,395	9,686	8,915	10,854	12,874
Net Profit	**36,009**	**25,603**	**24,104**	**29,347**	**34,806**

Cash flow

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Net income	**36,009**	**25,603**	**24,104**	**29,347**	**34,806**
D&A	9,160	10,111	12,016	14,281	16,975
Change in working capital	(34,502)	13,715	(12,898)	(4,313)	4,090
Others	(1,691)	(3,157)	33,916	6,252	16,159
Net cash from operating	**8,976**	**46,272**	**57,137**	**45,568**	**72,030**
Capex & investments	(1,470)	(1,349)	(312)	(326)	(341)
Associated companies	(138,431	(135,547	(132,465	(139,088	(146,043
Others	149,745	97,633	96,026	87,304	87,998
Net cash from investing	**9,845**	**(39,264)**	**(36,751)**	**(52,110)**	**(58,385)**
Equity raised	-	-	-	-	-
Change of Debts	36,428	29,497	(34,395)	14,518	16,879
Dividend paid	(21,381)	(10,281)	(11,522)	(10,847)	(13,206)
Others	(34,161)	(22,310)	9,524	10,455	12,145
Net cash from financing	**(19,114)**	**(3,094)**	**(36,393)**	**14,126**	**15,818**
Net change in cash	**(293)**	**3,914**	**(16,007)**	**7,584**	**29,463**
Cash at the beginning	121,611	123,771	127,827	111,819	119,403
Exchange difference	2,453	142	-	-	-
Cash at the end	**123,771**	**127,827**	**111,819**	**119,403**	**148,866**
Less: pledged cash	-	-	-	-	-

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	**329,394**	**338,176**	**356,585**	**395,211**	**437,499**
Fixed asset	69,187	83,056	99,558	119,195	142,560
Intangible assets	14,008	15,281	19,912	23,839	28,512
Interest in JV/associate	70,930	64,617	67,848	71,240	74,802
Other non-current assets	175,268	175,221	169,267	180,937	191,625
Current assets	**453,376**	**511,158**	**437,220**	**462,862**	**492,825**
Cash	123,771	127,827	111,819	119,403	148,866
Account receivable	61,090	58,988	50,514	50,596	49,341
Inventory	58,943	54,399	46,758	50,512	50,291
Other current assets	209,572	269,945	228,128	242,350	244,326
Current liabilities	**414,323**	**462,803**	**362,398**	**371,609**	**380,219**
Borrowings	140,385	154,582	124,496	121,431	125,820
Account payables	154,827	170,048	132,051	140,792	141,120
Other payables	119,111	138,173	105,852	109,386	113,278
Tax payables	-	-	-	-	-
Non-current liabilities	**83,726**	**85,690**	**94,529**	**106,849**	**120,060**
Borrowings	32,533	35,299	50,974	61,028	72,991
Provisions	15,266	13,997	12,783	13,450	13,816
Deferred income tax	2,267	3,112	2,544	2,550	2,684
Others	33,661	33,283	28,228	29,821	30,570
Total net assets	**284,720**	**300,840**	**336,877**	**379,614**	**430,045**
Minority Interest	**50,352**	**51,138**	**58,251**	**65,771**	**74,435**
Shareholders' equity	**234,369**	**249,702**	**278,626**	**313,843**	**355,610**

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Profit mix (%)					
Automobile	74%	73%	72%	72%	71%
Auto-parts	19%	20%	20%	19%	19%
Commercial services	1%	1%	1%	2%	2%
Labor services	4%	4%	5%	5%	5%
Financial services	2%	2%	2%	3%	3%
Total	**100%**	**100%**	**100%**	**100%**	**100%**
P&L ratios (%)					
Gross profit margin	14%	13%	12%	13%	14%
Pre-tax margin	6%	5%	5%	6%	6%
Net margin	4%	3%	3%	4%	4%
Effective tax rate	11%	14%	12%	12%	12%
Balance sheet ratios					
Current ratio (x)	1.09	1.10	1.21	1.25	1.30
Quick ratio (x)	0.51	0.51	0.59	0.59	0.65
Cash ratio (x)	0.30	0.28	0.31	0.32	0.39
Debtors turnover days	25	26	24	23	21
Total debt / total equity ratio	175%	182%	136%	126%	116%
Net debt / equity ratio (%)	17%	21%	17%	17%	12%
Returns (%)					
ROE	16%	11%	9%	10%	10%
ROA	7%	5%	5%	6%	6%
Per share					
EPS (RMB)	3.08	2.19	2.06	2.51	2.98
DPS (RMB)	1.83	0.88	0.99	0.93	1.13
BVPS (RMB)	19.38	20.06	21.37	23.85	26.86

Source: Company data, CMBIS estimates

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIS Ratings

BUY	: Stock with potential return of over 15% over next 12 months
HOLD	: Stock with potential return of +15% to -10% over next 12 months
SELL	: Stock with potential loss of over 10% over next 12 months
NOT RATED	: Stock is not rated by CMBIS
OUTPERFORM	: Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM	: Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM	: Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Securities Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

CMB International Securities Limited ("CMBIS") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIS does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIS recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIS, solely for the purpose of supplying information to the clients of CMBIS or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIS nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIS has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIS provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIS may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIS may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIS may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIS does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIS may have a conflict of interest that could affect the objectivity of this report and CMBIS will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIS.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I)falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time)("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.,) of the Order, and may not be provided to any other person without the prior written consent of CMBIS.

For recipients of this document in the United States

CMBIS is not a registered broker-dealer in the United States. As a result, CMBIS is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.