Kim Eng

China Electric Vehicles

POSITIVE *[Unchanged]*

Twin growth pistons

Automotive

HK/China

Yutong brightest outlook, BYD to face headwinds

We remain positive on China's EV sector. It will continue to be driven by strong government support and market consolidation. Reiterate BUY on our top pick Yutong, and HOLD on both BYD and FDG. Yutong will continue to benefit from: 1) market consolidation as smaller players continue to be pushed out; and 2) the central government's strong commitment to increasing the number of new energy vehicles (NEVs) used in public transportation. Despite the strong momentum in 2016, we expect BYD to face headwinds from greater competition and reduction in subsidies. FDG has started to ship NEVs to clients and any sizable eBus order would be a potential catalyst.

Strong sales momentum

China NEV sales (excl. HEV) soared 81% YoY in 1H16. This momentum will continue, especially in 4Q16 before the subsidies expire at the end of the year. We project sales will surge 88% YoY to 622,000 units this year. In addition to the supportive government policies and the end of the fraudulent claims investigations, we see a few emerging trends in 2H16 including: 1) increasing competition in the PHEV market; and 2) expansion of NEVs into new commercial segments, such as logistics.

eBus - consolidation as smaller players exit

We remain positive on eBus development amid the government's strong commitment to increasing the number of NEVs used in public transportation. Also, following the government investigation into fraudulent subsidy claims, we expect more stringent policies will be introduced, which will push out the smaller players in the eBus segment. Yutong, which has a portfolio of NEV products ranging from mini buses to large buses, will be the biggest beneficiary, as its NEV market share has increased to over 20% in 1H16 from 18% in 1H15.

Local policy headwinds

Our view on BYD is more cautious than the Street's, which is enthusiastic about the new model pipeline and cost control, mainly because we see stronger headwinds in the BEV/PHEV market. We believe BYD needs to cut prices to maintain its leading position, especially in Shanghai (the largest PHEV market), as new competition from the likes of Trumpchi and Geely emerges. Also, BYD's sales in Shanghai are near the threshold stipulated in a new policy and once it is reached, the subsidy will be cut in half (more details on Fig. 9). We also see limited upside to its major eBus market, Shenzhen (nearly 50% of sales), as eBus penetration will reach 100% in 2017. BYD needs to expand into new markets for growth.

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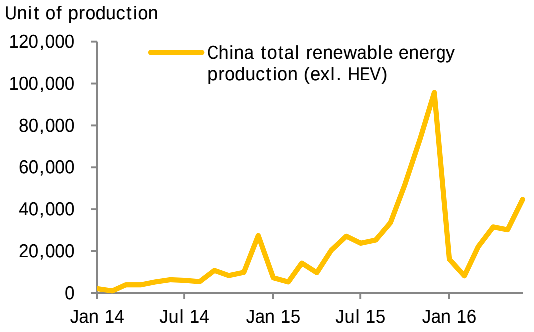
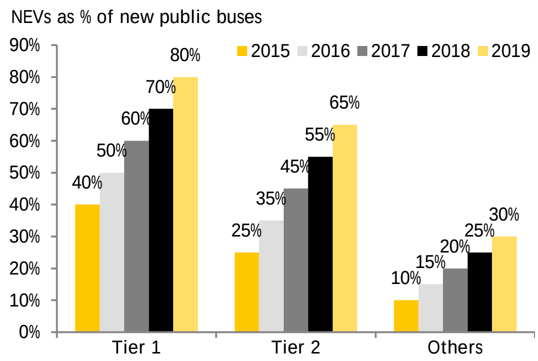
China NEV sales soared 81% YoY in 1H16



Source: Wind and Maybank Kimeng

Chinese government committed to NEVs in public transportation



Source: Wind and Maybank Kimeng

Company	Ticker	Rating	Price (lcl.cy)	Target Price	Upside (%)	Market Cap (USDm)	3m ADTV (USDm)	PE (FY) 16F (x)	PE (FY) 17F (x)	P/B (FY) 16F (x)	P/B (FY) 17F (x)	ROE (FY) 16F (%)	ROE (FY) 17F (%)	Div. Yield (FY) 16F (%)	Div. Yield (FY) 17F (%)	FY15-17F CAGR EPS (%)	PEG FY16F (x)
Auto NEV																	
Yutong Bus	600066 CH	Buy	21.88	26.00	19	7,238	40.3	11.8	10.7	3.3	3.0	30.1	29.5	5.1	5.6	13.9	0.8
BYD	1211 HK	Hold	51.25	50.00	(2)	20,744	27.2	27.8	25.0	2.5	2.2	10.6	9.3	0.7	0.8	25.6	1.0
FDG*	729 HK	Hold	0.42	0.45	8	1,190	2.5	n.a.	n.a.	2.7	4.0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

*Note: Prices as of 15th July 2016; *FDG is March year-end*

Source: Bloomberg, Maybank Kim Eng

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1. Stock recommendations

We remain convinced that EVs are an integral part of China's long-term planning for energy security and environment protection. Total NEV sales accounted for only 1.3% of the China market last year and we expect it to reach 6% by 2020. Our top pick is Yutong for its strong balance sheet, leading position in the NEV bus market and attractive valuation. BYD's strong growth momentum this year, driven by operating leverage, seems priced-in and the stock trades at fair valuation in our view. FDG has started shipping its eBus products to clients and we expect to see sizeable orders in the coming quarters.

- **Yutong (600066 CH, BUY, TP: CNY26)**

Reiterate BUY as we believe the new energy bus market will be one of the bright spots in the NEV segment because: 1) there are fewer obstacles to developing charging infrastructure for public vehicles compared to passenger vehicles, 2) much lower maintenance and fuel cost vs conventional buses and 3) NEV buses can effectively reduce emissions. (Please refer to our initiation report, *"China Electric Vehicles – The Green Race", 20 Jan 2016*). Yutong is well positioned to benefit from this trend. Unit sales accelerated in 2Q after a slow start in 1Q and overall 1H16 shipments rose 24% YoY. NEV sales doubled to ~7,400 units. Given the stricter subsidy policy, we believe Yutong will continue to gain share, having reached 21% in 1H16 from 18% in 1H15. We raise our 2016-17 EPS by 8-10% to reflect our slightly stronger NEV sales assumption and flat margins in 2016-17, after factoring in the subsidy reduction next year. Our new SOTP-based TP is CNY26.

- **BYD (1211 HK, HOLD, TP: HKD50)**

Maintain HOLD on BYD but raise our TP to HKD50, which is based on a SOTP valuation with unchanged target multiples. We see limited re-rating in the coming 12 months because of: 1) the fair valuation; 2) rising headwinds in its largest eBus/PHEV market (Shenzhen/Shanghai); and 3) lower margins resulting from the subsidy reduction. BYD is benefiting from strong operating leverage thanks to its vertically integrated model. However, this is mostly priced in while the market starts to discount the slower growth in 2017. In addition, its recent announcement of developing light rail is not a strong near term catalyst.

- **FDG (729 HK, HOLD, TP: HKD0.45)**

The coming 12 months will be critical for FDG, an NEV producer with in-house battery production capability, to monetize years of R&D and investment effort. It commenced its NEV production and started shipping mini-buses and large buses to customers last year. Having a backlog of a few hundred units is a good start, but a positive catalyst will come only if it receives a sizeable order. Furthermore, given its design capability and strength in battery technology, we believe its products that have an Ekg of below 0.25 will enable it to remain competitive in the market. Key risks include subsidy reductions and weaker-than-expected orders. Maintain HOLD with TP of HKD0.45, which is based on a SOTP valuation with unchanged target multiples.

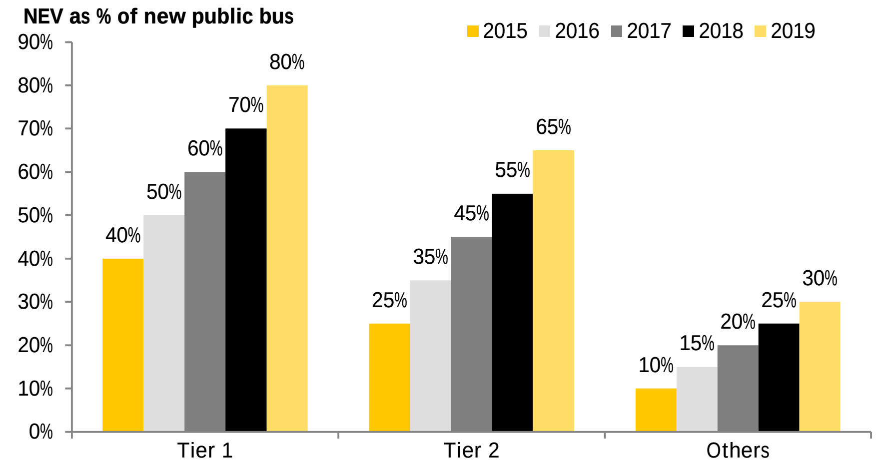
2. NEV bus – market consolidation

We reiterate the view that the tightening regulations and government investigations into fraudulent claims will weed out the pretenders and is positive for the market leaders. Please refer to our previous note *"China Electric Vehicles - Survival of the fittest", 25 April 2016.* This is evidenced by the fact that eBus unit sales accelerated in 2Q amid the government investigations. Sales surged 84% YoY in 2Q16 (vs. 14% YoY in 1Q16). In addition to the subsidy policy, we believe the market will continue to be driven by two key factors:

- **Strong government support:** Early this year, Shenzhen's public bus operator set a target of replacing all gasoline buses with electric or hybrid vehicles by 2017. Furthermore, the Guangdong government targets to have NEV buses account for 75% of total public buses. The Shanghai local government also targets to have NEVs comprise 70% of new bus purchases by 2018 from 50% in 2016. We believe this will continue to support market leaders like Yutong and BYD. Overall, eBuses account for ~25% of total bus sales in China. Central government aims to increase the percentage of eBus orders to 30-80% of overall procurement by 2020.

Tier-1 cities include Beijing, Shanghai, Tianjin, Hebei, Shanxi, Jiangsu, Zhejiang, Shandong, Guangdong, Hainan, whereas Tier-2 cities include Anhui, Jiangxi, Henan, Hubei, Hunan, Fujian

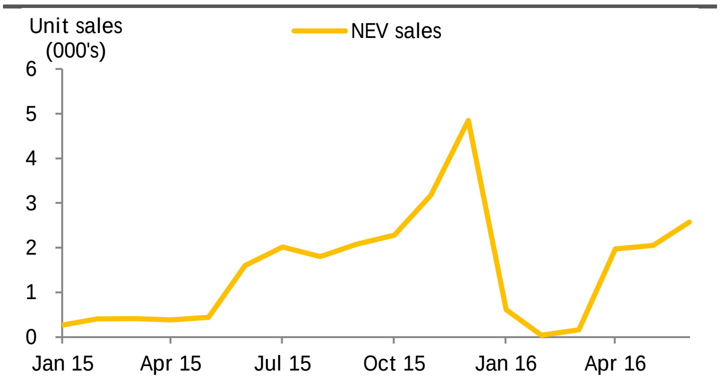
Fig 1: Chinese government committed to NEVs in public transportation



Source: MOC, Maybank Kim Eng

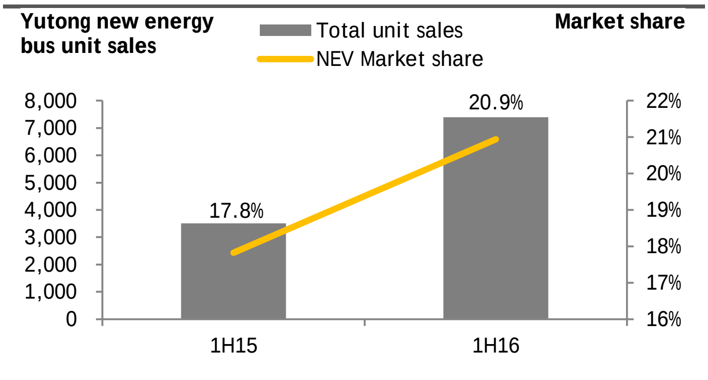
- **Market consolidation:** We project Yutong's buses will continue to lead the market, and we project its NEV sales volume will increase at a 27.5% CAGR over 2015-18E. The market slowed down in 1Q16 amid the government investigations into the fraudulent claims. Yutong gained market share in 1H16 (its share increased to over 20% in 1H16 from around 18% in 1H15). We expect the government will introduce more stringent measures on subsidy claims. As a result, we believe that the market will continue to consolidate and Yutong will further gain market share.

Fig 2: Yutong NEV bus sales increased over 100% YoY in 1H16 to 7,400



Source: Wind, company, Maybank Kim Eng

Fig 3: Yutong's market share increased to 20.9% in 1H16



Source: Wind, company, Maybank Kim Eng

3. NEV PV – A dynamic market

China new energy vehicle sales (excl. HEV) increased 81.0% YoY to 153,000 units in 1H16. Among these, passenger vehicle sales increased 81.4% YoY to 112,000 units in 1H16.

3.1 PHEV – BYD is the market leader

PHEV sales rose 62.8% YoY to 33,000 units in Jan-Jun '16 (30% of NE PV total sales). BYD remains the market leader with a 72% market share in the segment, followed by SAIC with a 20% share in first five months.

PHEVs/BEVs target mid-end customers, which are less sensitive to pricing (vehicle price at CNY160,000-200,000). They are more concerned about license plate restrictions and free license registration is the key incentive for PHEV/BEV purchases.

Local subsidy cut

However, BYD and dealers need to provide higher incentives to buyers of BYD Qin (PHEV sedan model) in Shanghai after the local subsidy cut (Fig 4). The impact in 2016 is insignificant as the discount is mild and the overall ASP will be supported by a rising contribution from the Tang, its higher price model. However, we see this as an early sign of pricing competition.

BYD Qin accounted for 15% of BYD's BEV/PHEV sales in Jan-May 2016. Its unit sales fell 46% YoY in Jan-May. The weak performance was mainly due to: 1) cannibalization by another BYD SUV model (Tang), which made up 36% of BYD's BEV/PHEV sales in the period; and 2) losing market share to Roewe e550, which saw sales rise 140% YoY in the same period. In our view, one of the key reasons is that Roewe is eligible for higher local subsidies than BYD's Qin.

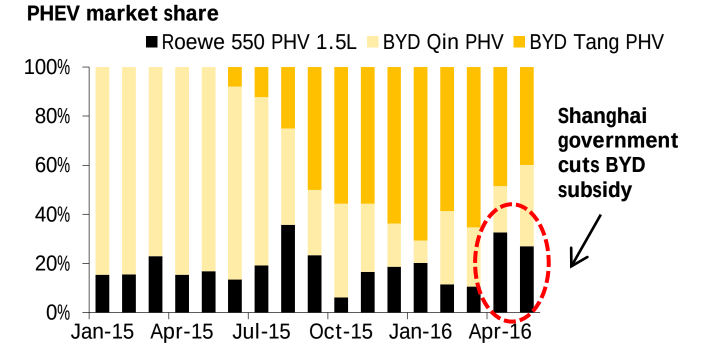
In Apr 2016, the Shanghai government announced new regulations. It stated that PHEVs could enjoy a maximum local subsidy of CNY24,000 if they are equipped with a 1.6L or smaller engine, fuel efficiency below 5.9L/100km, and petrol tank size below 40L. Roewe is the only model that is able to meet the standard, while BYD Qin's petrol tank is 50L. BYD is revising the design and preparing to launch a new model in 2H.

Fig 4: BYD and dealers need to provide more incentives to Qin buyers

	BYD Qin PHEV	Roewe e550
MSRP (CNY)	219,800	239,800
Central government subsidy (CNY)	30,000	30,000
Shanghai local government subsidy (CNY)	10,000	24,000
OEM and dealers subsidy (CNY)	14,000	9000
Actual selling price (CNY)	**165,800**	**176,800**
Other	CNY4,000 gifts	NA

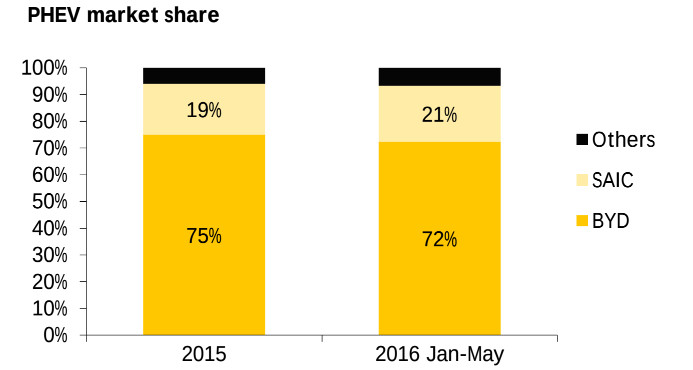
Source: Sina auto; Maybank Kim Eng

Fig 5: Rising shipments of BYD PHEV Tang offsetting weak Qin sales



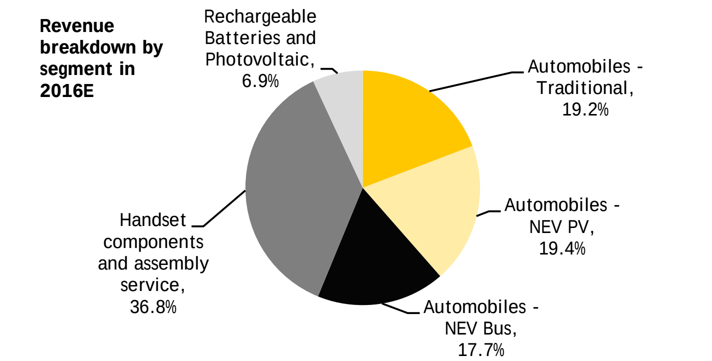
Source: Wind, CPCA, Maybank Kim Eng

Fig 6: SAIC-Roewe gained share since Shanghai introduced new policies



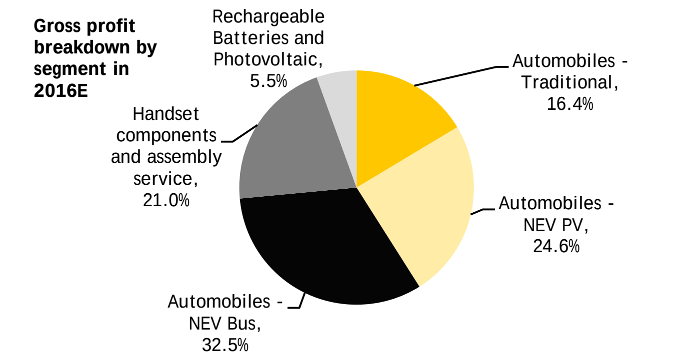
Source: Wind, CPCA, Maybank Kim Eng

Fig 7: NE PV accounts for 19% of BYD total sales in 2016



Source: Company, Maybank Kim Eng

Fig 8: But nearly 25% of BYD's gross profit



Source: Company, Maybank Kim Eng

Uneven playing field in Shanghai

Shanghai, the largest PHEV market in China, will reduce the subsidy by half for automakers with accumulated NEV sales (since 2014) of over 40,000 units in the city and terminate the subsidy after the accumulated NEV sales reach 60,000 units. As sales of BYD's Qin and Tang in Shanghai reached 30,000 in May, BYD's NEV buyers may not be able to enjoy the full local subsidy in the second half (i.e. CNY10,000). Meanwhile, its peers, such as SAIC and BAIC, are still entitled to the full subsidy, as sales have yet to reach the quota. As a result, since BYD will no longer be competing on the same playing field as its peers, sales will face stronger headwinds in the coming few months if it does not cut prices to compensate for the difference in subsidy. We believe the impact in 2016 will be limited, but we have factored in a negative 6% earnings impact to BYD assuming it provides additional incentive to buyers (i.e. 30,000 units) in 2017.

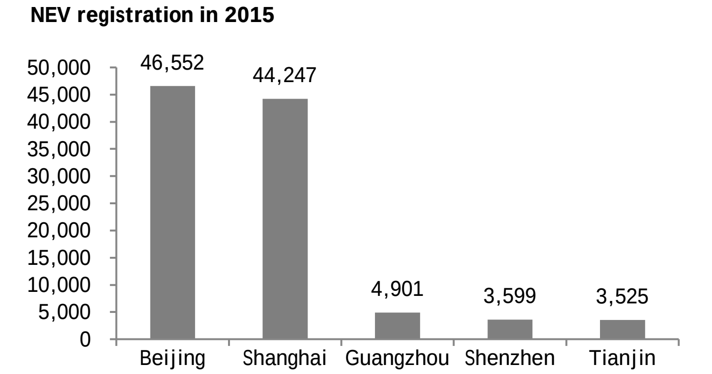
Fig 9: Shanghai introduced "按量退坡," limiting the amount of subsidies

NEV Subsidy	PV	CV	Special vehicle
Subsidy x 1	S≤40,000	S≤1,000	TS≤3,000
Subsidy x 0.5	40,000<S≤60,000	1,000<S≤2,000	3,000<TS≤5,000
0	S>60,000	S>2,000	TS>5,000

Note: S = accumulated sales of an NEV auto OEM in Shanghai since 1 Jan 2014; TS = accumulated sales in Shanghai of an NEV auto OEM since 1 Jan 2016; 按量退坡 =subsidy reduction according to sales volume
Source: Maybank Kim Eng

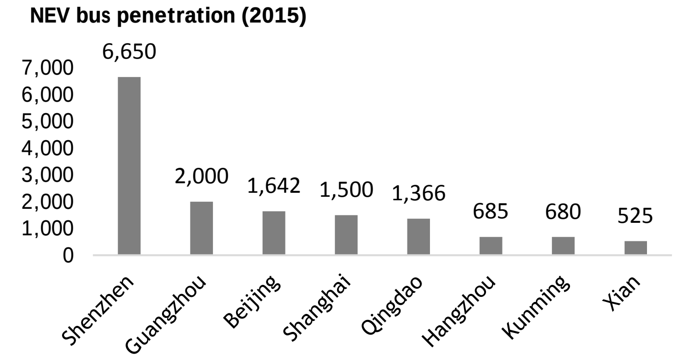
- **Market size in other cities still small: The** potential market size in other cities (e.g. Guangzhou, Shenzhen and Tianjin) with licensee plate restriction policies will be much smaller than Shanghai (Fig. 10) in the near term. This is because auction fee or licence registration costs in those cities are around CNY20,000-30,000, which is 60% less than Shanghai's CNY85,000. In addition, Beijing is a large market but the government only provides free licences to BEV buyers but for PHEVs.
- Overall we project BYD's PHEV unit sales will increase 65% this year (lower than guidance of 100%) and moderate to 35% in 2017, which is lower than our PHEV market growth projection of 50% next year, mainly due to new rivals (e.g. Geely and GAC). We estimate BYD will sell 98,000 units in 2016 (Shanghai accounts for 30-40%).

Fig 10: Beijing and Shanghai are the largest NEV markets in China



Source: gasgoo; Maybank Kim Eng

Fig 11: BYD is benefiting from Shenzhen government's strong push for NEV buses



Source: gasgoo; Maybank Kim Eng

Rising competition in 2017

We recently spoke with a few key automakers — including Geely, SAIC, Great Wall, GAC and Brilliance — about their NEV strategy. Companies are developing NEV technology, but do not have aggressive timelines. We believe Geely is likely to be a strong new player in the segment next year.

- Geely launched the Emgrand BEV last year and expects sales to reach 16k units this year. It will also launch Emgrand HEV and PHEV in 2H16. The impact is very limited in 2016. However, it will have a very strong NEV pipeline in coming years. Geely will introduce BEV/PHEV versions of GC9 博瑞 and NL3 博越 in 2017. After the CMA platform debuts in 2H17, Geely will introduce three different versions including gasoline, BEV and PHEV for each new model. The platform is designed to produce vehicles with different powertrains seamlessly. It will use both domestic and foreign battery suppliers. We believe Geely will likely be a new rival to BYD.
- GAC said that the current demand is good but that battery supply is a bottleneck.
- SAIC believes the market is still at a developing stage and will continue to invest in it, but NEV will not have a great impact on its earnings.
- Great Wall said it will launch a BEV this year using a domestic battery but will introduce PHEVs next year. It plans to install LG Chem's battery in the PHEV model, and expects to launch it in 1H17. However, given NEVs with LG Chem battery currently are not eligible to enjoy government subsidy, the company is also considering using domestic suppliers due to uncertainties about the government policy. If this is the case, the schedule will be delayed.

- Brilliance believes that policy risk remains high. It plans to develop PHEV versions of all existing models, but will launch them slowly given that a lot of regulations and standards are still being finalized.

Fig 12: Geely's Emgrand EV (BEV)

Source: Auto Sohu

Fig 13: GAC's Trumpchi GS4 EV (BEV)

Source: Google

Fig 14: Roewe's eRX5 (PHEV)

Source: Auto Sohu

Fig 15: GAC's Trumpchi GA3S (PHEV)

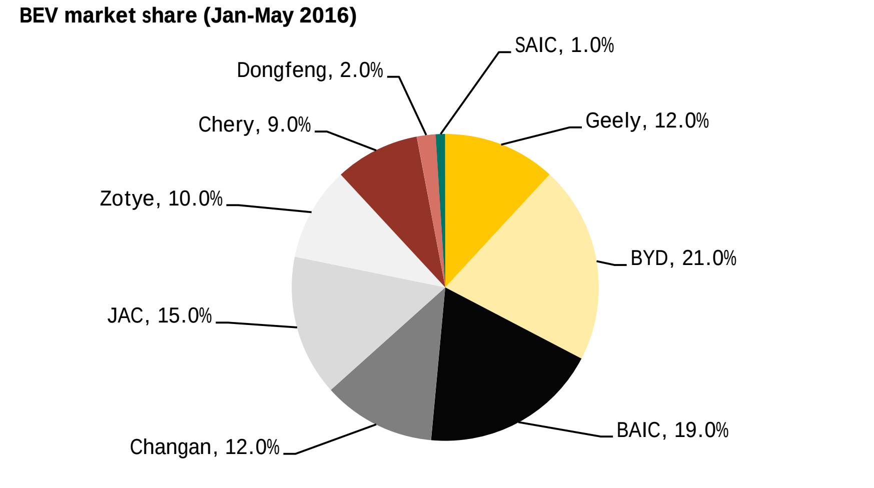
Source: Google

3.2 BEVs – More fragmented market

This segment includes both short range/low speed BEVs (e.g. Kandi) and normal BEVs (e.g. BYD E60) with driving range of over 150km**. Sales rose 90.6% YoY to 79k units in1H16, accounting for 71% of NE PV total sales.**

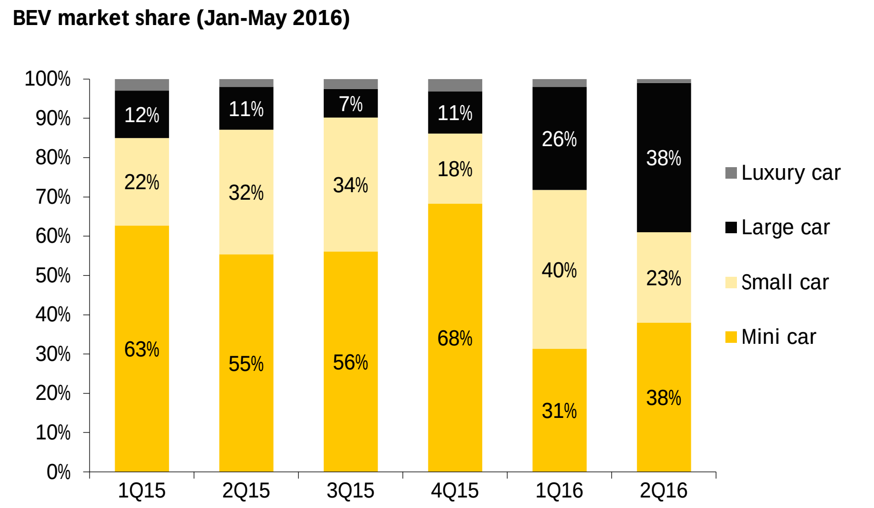
Compact BEV sales are driven by lower tier cities with less infrastructure requirements. Kandi, Zotye, JAC and Chery are the key players in this market while BYD, SAIC and BAIC focus on tier 1-2 cities with mid-end products. Sales continue to be driven by government demand, car rental market and new taxi procurement. Beijing only allows buyers of pure BEVs to obtain free license plates but not for PHEVs. As a result, this is the largest market for BAIC's BEVs. BYD and BAIC are the key players in the segment with ~40% market share.

Fig 16: The BEV segment is much more fragmented than the PHEV market



Source: Wind, CPCA, Maybank Kim Eng

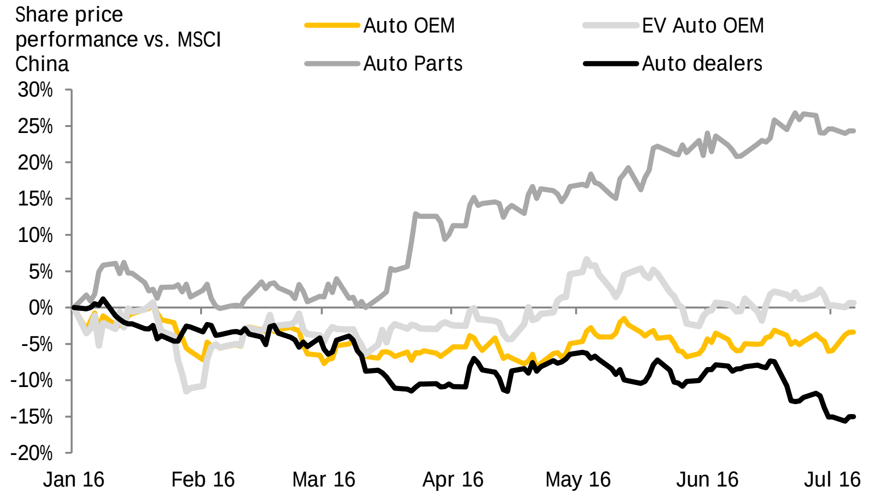
Fig 17: Mid-end products (B-segment) are gaining market share this year thanks to more offerings from BAIC and Changan, among others



Source: Wind, CPCA, Maybank Kim Eng

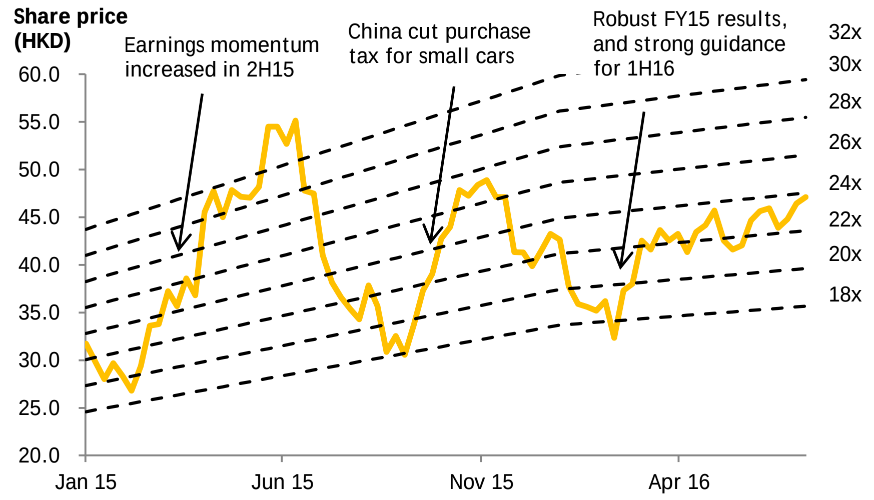
4. Valuations

Fig 18: China EV OEMs' share price performance in line with market in 1H16



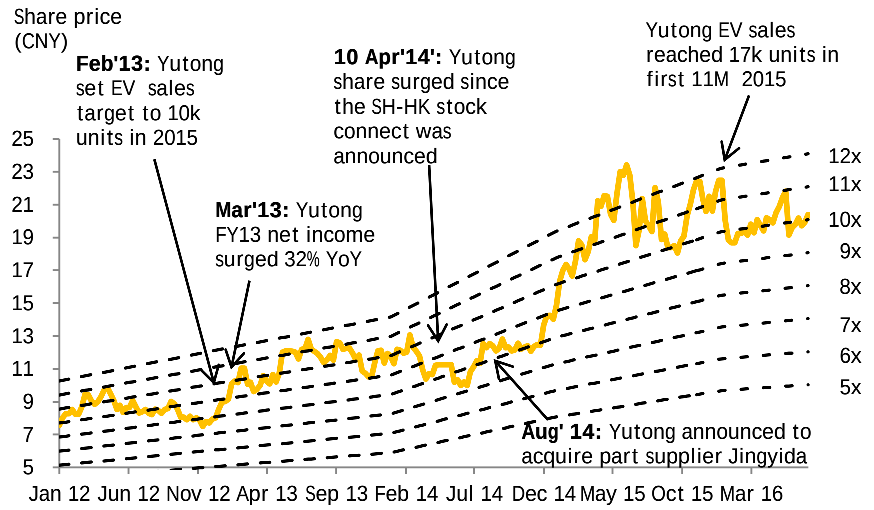
Source: Bloomberg, Maybank Kim Eng

Fig 19: BYD's PE band



Source: Bloomberg, Maybank Kim Eng

Fig 20: Yutong's PE band



Source: Bloomberg, Maybank Kim Eng

Fig 21: Valuation comparison

Name	Code	Price (lcl.cy)	Mkt cap (USDm)	PE_x FY16E	PE_x FY17E	PB_x FY16E	PB_x FY17E	RoE_% FY16E	RoE_% FY17E	EV/EBITDA_x FY16E	EV/EBITDA_x FY17E	CAGR EPS FY15-17E (%)	PEG FY16E (x)	Net gearing FY15 (%)
EV														
Zhengzhou Yutong	600066 CH	21.88	7,238	11.8	10.7	3.3	3.0	30.1	29.5	7.8	7.0	13.9	0.8	Net cash
BYD Co Ltd	1211 HK	51.25	20,744	27.8	25.0	2.5	2.2	10.6	9.3	12.3	11.0	25.6	1.0	96.1
FDG Electric	729 HK	0.42	1,190	n.a.	n.a.	2.7	4.0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	109.0
Mkt weighted avg.				**23.7**	**21.3**	**2.7**	**2.5**	**15.7**	**14.5**	**11.1**	**10.0**	**22.6**	**0.9**	**72.8**
Auto OEM														
Geely	175 HK	4.64	5,267	10.7	8.3	1.6	1.3	15.7	17.6	6.5	4.6	23.6	0.5	Net cash
Great Wall	2333 HK	6.91	11,411	7.7	8.3	1.3	1.1	17.3	14.5	5.5	5.8	(6.5)	(1.2)	Net cash
Dongfeng Motor	489 HK	8.31	9,234	5.6	5.5	0.7	0.6	12.5	11.2	36.7	32.8	3.5	1.6	Net cash
Brilliance China	1114 HK	8.88	5,769	11.0	8.8	1.7	1.4	16.3	17.5	nm	nm	7.9	1.4	Net cash
SAIC	600104 CH	21.41	35,272	7.9	7.9	1.3	1.2	16.7	15.4	8.6	7.7	1.8	4.4	Net cash
GAC	2238 HK	10.20	17,305	8.5	7.5	1.3	1.2	16.3	16.5	16.1	13.2	21.4	0.4	Net cash
BAIC	1958 HK	6.04	5,916	9.0	7.4	1.0	1.0	12.1	13.4	6.1	5.4	17.1	0.5	13.9
Mkt weighted avg.				**8.2**	**7.7**	**1.2**	**1.1**	**15.9**	**15.2**	**11.7**	**10.3**	**7.4**	**1.9**	**13.9**
Battery Manufacturers														
Panasonic Corp	6752 JP	986.30	23,077	14.1	11.3	1.2	1.1	8.6	10.0	3.7	3.3	9.4	1.5	Net cash
Lg Chem Ltd	051910 KS	258,000.00	15,005	12.2	10.9	1.3	1.2	10.9	11.1	5.2	4.8	11.9	1.0	Net cash
Samsung Sdi Co Ltd	006400 KS	108,500.00	6,548	26.4	24.1	0.7	0.7	1.7	2.8	n.a.	7.7	110.0	0.2	Net cash
Guoxuan High-Tech	002074 CH	41.60	5,447	30.3	23.3	8.7	6.7	26.1	26.5	23.9	19.1	36.3	0.8	Net cash
Hitachi Chemical	4217 JP	2,052.00	4,078	12.0	11.0	1.1	1.0	9.3	9.8	4.3	4.0	25.1	0.5	Net cash
Gs Yuasa Corp	6674 JP	424.00	1,673	12.8	10.9	1.0	1.0	8.3	9.1	5.8	5.3	20.8	0.6	32.1
Shenzhen Desay Battery	000049 CH	40.04	1,228	25.3	25.7	6.9	5.6	26.4	24.1	18.4	16.2	12.8	2.0	Net cash
Tianneng Power	819 HK	5.14	748	6.1	4.9	1.2	1.0	22.1	23.3	4.2	3.5	25.9	0.2	19.3
Chaowei Power	951 HK	4.85	641	8.6	7.1	1.5	1.3	15.3	16.5	6.2	5.5	28.1	0.3	89.5
Coslight Technology	1043 HK	3.82	197	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	114.7
China Bak Battery	CBAK US	2.60	45	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	26.9
Mkt weighted avg.				**16.4**	**13.9**	**2.0**	**1.7**	**10.7**	**11.5**	**6.7**	**6.1**	**25.7**	**1.1**	**2.5**
China Autoparts														
Xinyi Glass Holdings Ltd	868 HK	5.73	2,868	9.3	7.9	1.6	1.5	17.8	19.3	8.7	7.6	14.9	0.6	38.3
Minth Group Ltd	425 HK	25.90	3,747	15.7	13.4	2.4	2.1	16.1	16.6	11.3	9.7	19.6	0.8	Net cash
Xingda Int.	1899 HK	2.06	395	12.7	8.1	0.5	0.5	5.6	8.5	5.1	4.1	29.2	0.4	Net cash
Nexteer Automotive	1316 HK	7.15	2,304	9.4	8.5	2.2	1.8	25.6	23.9	4.9	4.4	14.2	0.7	26.3
Fuyao Glass Industry	3606 HK	18.70	5,827	13.7	12.1	2.3	2.1	17.2	18.0	8.1	7.1	10.5	1.3	Net cash
Huayu Automotive	600741 CH	15.60	7,349	9.2	8.4	1.5	1.4	18.0	17.5	4.8	4.4	3.6	2.5	Net cash
Mkt weighted avg.				**11.5**	**10.1**	**1.9**	**1.7**	**18.0**	**18.2**	**7.3**	**6.4**	**11.0**	**1.5**	**32.9**

Note: Prices as of 15th July 2016
Source: Bloomberg, Maybank Kim Eng

July 18, 2016

Zhengzhou Yutong Bus (600066 CH)

The wheels on the eBus go round and round

BUY

Share Price	CNY 21.88
12m Price Target	CNY 26.00 (+19%)
Previous Price Target	*CNY 23.50*

Automotive

China

Extending its lead; TP raised 11%; Reiterate BUY

We believe Yutong, as a market leader, will continue to benefit from the tightening of subsidy policies as this will increase the entry barriers for smaller new players. Yutong's 2Q16 unit sales accelerated thanks to strong NEV sales, which doubled YoY to 7,400 units in 1H16. Yutong's market share expanded while its margins remained stable. We expect its interim results will be on track.

EPS estimates lifted; Encouraging 1H16 sales

We increased our 2016-17 EPS estimates by 8-10%, mainly to reflect strong sales. We revised up our sales forecast for 2016 by 5% to reflect a stronger sales trend in 1H16. Yutong's unit sales rose 23.6% YoY in 1H16 and NEV sales doubled to 7,400 units, which now accounts for 25% of total unit sales. As pointed out in our previous report "Survival of the fittest", 25 April 2016, Yutong is benefiting from the market consolidation. Its market share rose to 21% in 1H16 from 18% in 1H15 mainly amid tightening of subsidy policies.

Interim preview: profit boost likely

We expect Yutong's earnings accelerated in 2Q without any significant one-off investment gains/losses (a loss of CNY104m in 1Q). EBIT margin should have improved thanks to rising contribution of NEV sales, higher utilization rate and lower SG&A ratio. These will offset the rise in steel cost in 2Q16. FCF in 2016 will be lower than last year, but reaccelerate in 2017. This is because of: 1) rising capex (i.e. CNY3-4b) to support introduction of automatic production processes and housing for staff; and 2) higher receivable days as a result of increase in government subsidies.

Valuations

Our new TP of CNY26.0 is derived from a SOTP valuation with unchanged EV/EBITDA multiple (10x for NEV and 5x for traditional bus). Our TP implies 12.7x 2017 PER, which is at the high end of its trading range. Strong interim results will be the key near-term catalyst. Risks include any significant cut in government subsidies and the high YoY comparison in 2H.

FYE Dec (CNY m)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	25,728	31,211	35,587	37,492	42,268
EBITDA	3,783	4,637	5,608	6,039	7,123
Core net profit	2,613	3,535	4,116	4,542	5,513
Core EPS (CNY)	1.18	1.60	1.86	2.05	2.49
Core EPS growth (%)	15.5	35.3	16.4	10.3	21.4
Net DPS (CNY)	0.67	1.50	1.12	1.23	1.49
Core P/E (x)	18.5	13.7	11.8	10.7	8.8
P/BV (x)	4.5	3.8	3.3	3.0	2.6
Net dividend yield (%)	3.0	6.9	5.1	5.6	6.8
ROAE (%)	25.8	29.9	30.1	29.5	31.6
ROAA (%)	12.3	13.1	12.9	12.9	14.2
EV/EBITDA (x)	7.1	9.3	7.8	7.0	5.8
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	3,970	4,244	4,632
MKE vs. Consensus (%)	-	-	3.7	7.0	19.0

Company Description

Zhengzhou Yutong Bus manufactures and sells conventional and electric buses.

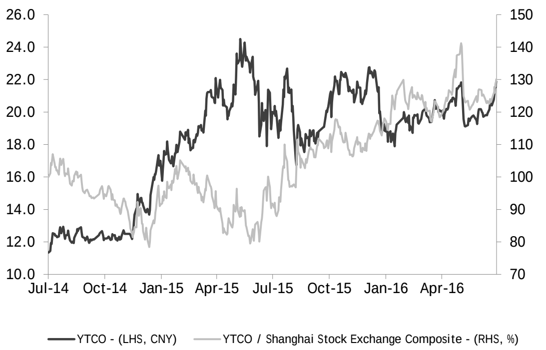
Statistics

52w high/low (CNY)	22.76/16.73
3m avg turnover (USDm)	40.3
Free float (%)	64.5
Issued shares (m)	2,214
Market capitalisation	CNY48.4B
	USD7.3B

Major shareholders:

Zhengzhou Tongtai Zhihe Busuiness Manage	31.6%
China State-Owned Assets Supervision & A	2.3%
Ping An Asset Management Co., Ltd.	2.2%

Price Performance



	-1M	-3M	-12M
Absolute (%)	11	9	16
Relative to index (%)	5	10	44

Source: FactSet

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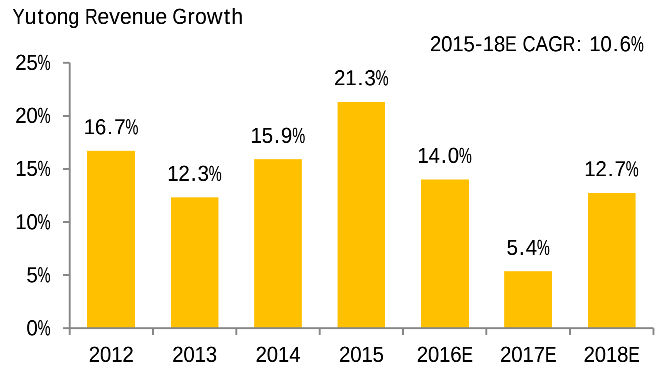
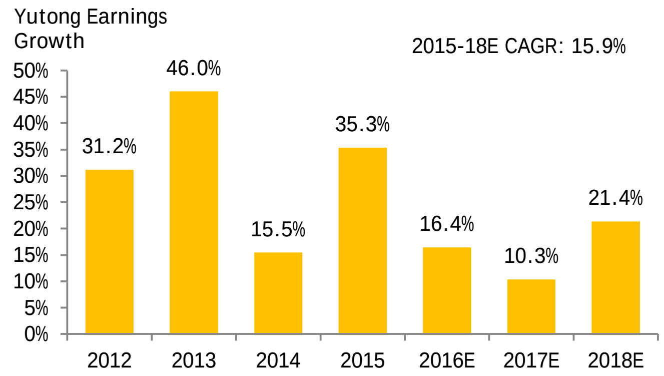
Fig 22: We expect sales growth will slow in FY17 mainly due to subsidy reduction



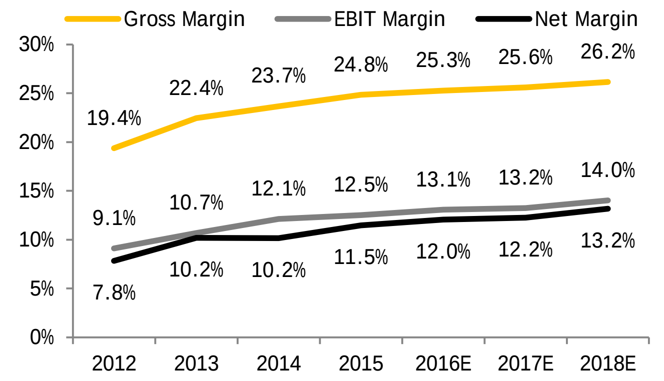
Source: Company, Maybank Kim Eng

Fig 23: We estimate earnings to increase by a 15.9% CAGR over FY15-18E



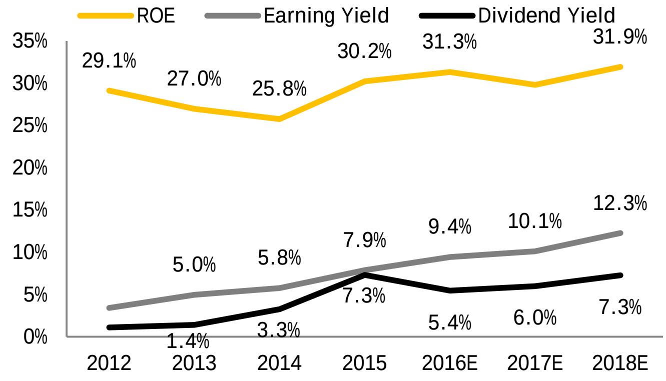
Source: Company, Maybank Kim Eng

Fig 24: Margins to improve in FY15-16 mainly due to higher profit contribution from NEV sales, but remain stable in '17



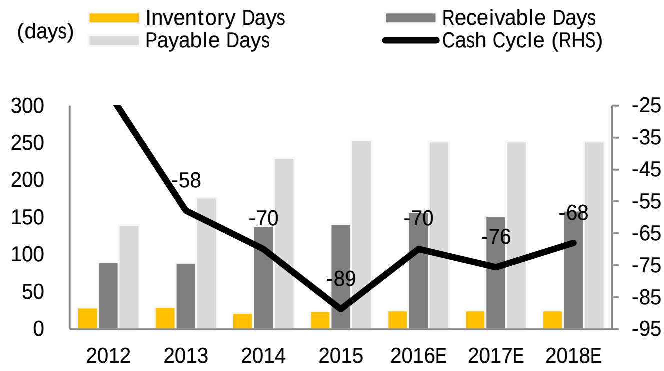
Source: Company, Maybank Kim Eng

Fig 25: Yutong's ROE is at the high end among peers



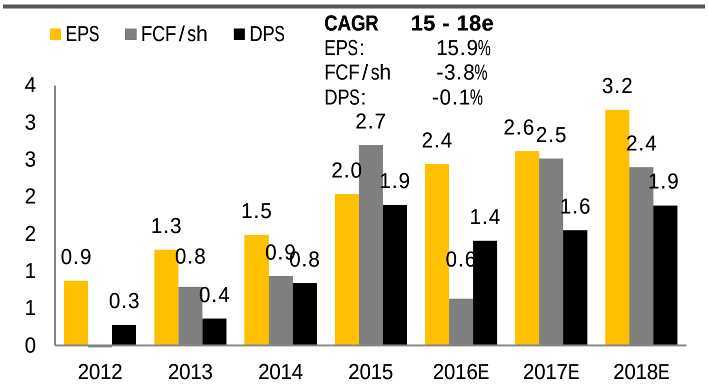
Source: Company, Maybank Kim Eng

Fig 26: Rising receivables due to delay in subsidy payments from local governments



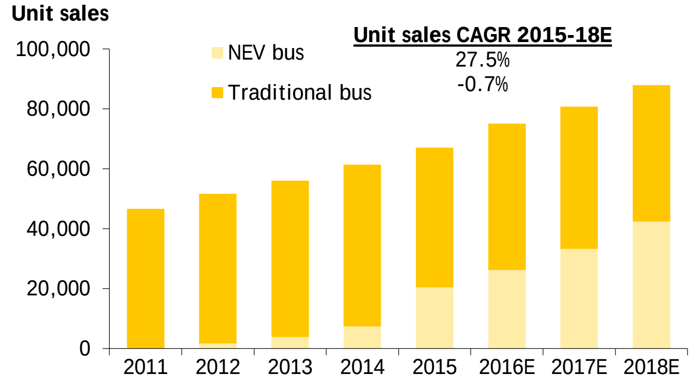
Source: Company, Maybank Kim Eng

Fig 27: FCF drops in 2016 as a result of higher receivables along with capex



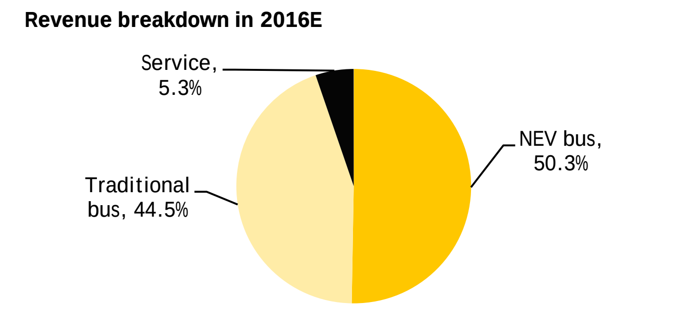
Source: Company, Maybank Kim Eng

Fig 28: We expect Yutong's NEV bus unit sales will increase by a 27.5% CAGR over FY15-18E



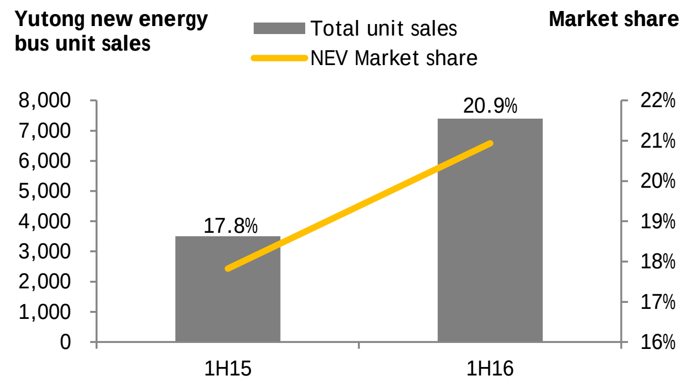
Source: Company, Maybank Kim Eng

Fig 29: NEV accounts for 35% of total unit sales but 50% of revenue



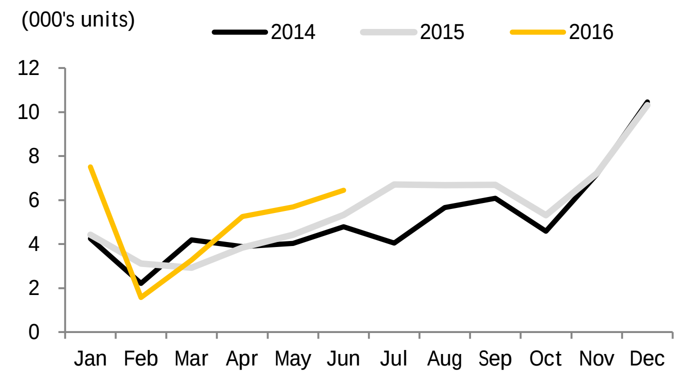
Source: Company, Maybank Kim Eng

Fig 30: Yutong's NEV bus market share rose to 20.9% in 1H16 from 17.8% in 1H15



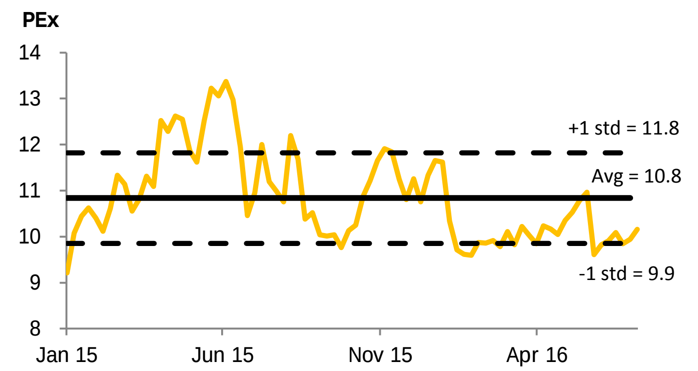
Source: Maybank Kim Eng

Fig 31: Yutong's monthly sales rose 23.6% YoY in 1H16



Source: Marklines, Maybank Kim Eng

Fig 32: Yutong is trading at the low end of its PER band

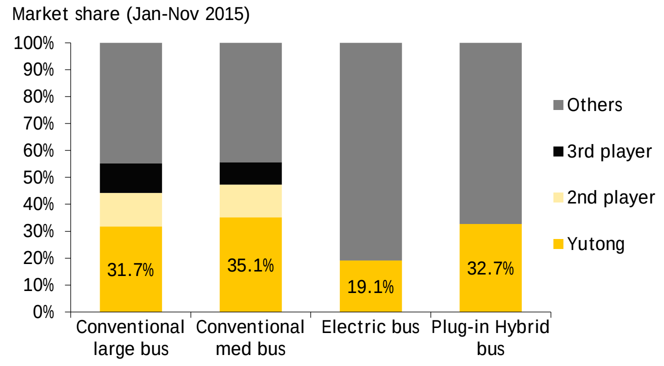


Source: Bloomberg, Maybank Kim Eng

Company Proposition

- Zhengzhou Yutong is the largest conventional and new energy bus producer in China with over 30% and ~17% market share in 2015, respectively.
- Adoption of NE buses easier and faster than passenger vehicles. Key beneficiary of demand surge, driven by government support to combat pollution.
- We forecast new energy bus market to grow at a 29% CAGR from 2015-20E, and for Yutong to continue to gain share by leveraging its technology and strong customer base.
- Does not manufacture batteries for NE buses, but this is not a weakness in the business model. Batteries likely to be commoditised and global shortfall should ease.

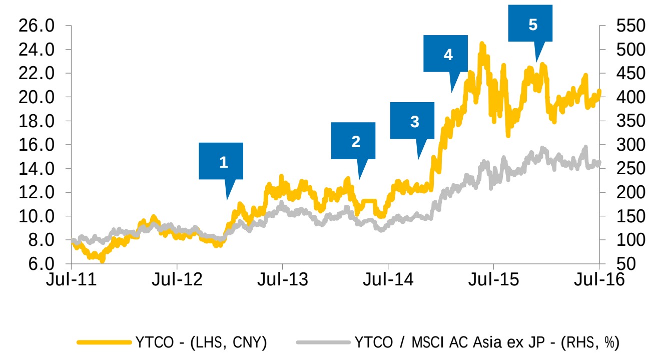
Yutong is the leader in both conventional & NE bus market



Source: Company

Price Drivers

Yutong share price performance



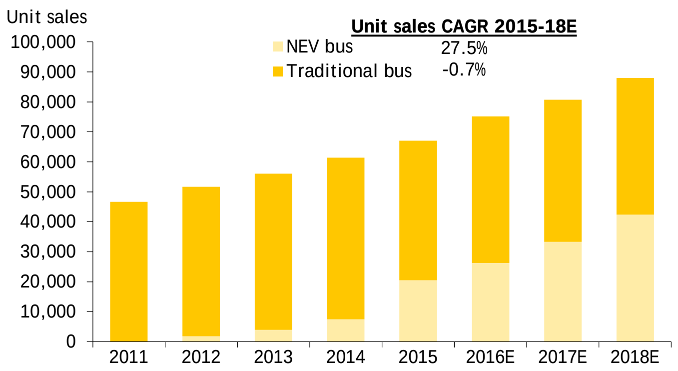
Source: Company, Maybank Kim Eng

1. FY13 net income surged 46% YoY.
2. Stock rallied after Shanghai-Hong Kong stock connect was announced on 10 Apr 2014.
3. Acquisition of its part supplier, Jingyida.
4. Set EV sales target of 10,000 units for 2015.
5. New energy bus sales more than doubled in 9M15 to 18,000 units.

Financial Metrics

- NE bus sales the most important metric for Yutong. NE bus sales more than doubled in 2015. Forecast NE bus unit sales to increase 27.5% CAGR over FY15-18E.
- Yutong will pass on the margin pressure due to reduction in subsidies to buyers and suppliers. Its net margin likely increase to 12.1% in 2017 (vs. 11.3% in 2015).
- Profit will continue to grow amid falling subsidies thanks to better scale and rising sales volume.
- Yutong consistently generates strong FCF to support its generous dividend policy with payout of 60% (94% in 2015).

Yutong sales driven by strong pick up in new energy buses



Source: Company, Maybank Kim Eng

Swing Factors

Upside

- Falling government subsidies will squeeze out weak players allowing Yutong to gain market share faster than expected.
- Battery cost falling faster than expected due to rising supply.

Downside

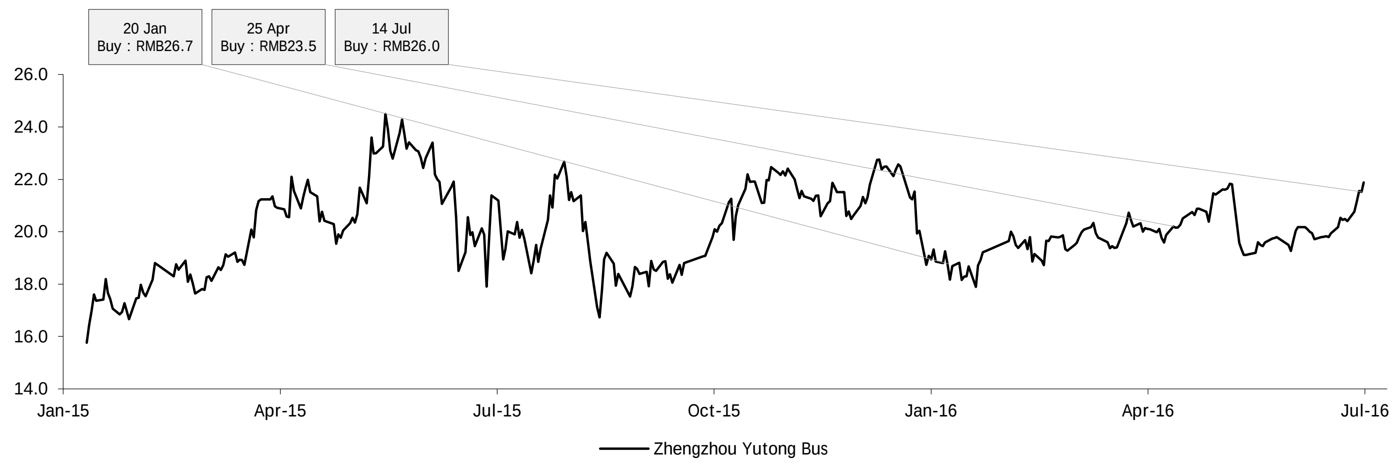
- Yutong relies on third-party battery supplies. Any disruption, delays or shortages will have a significant impact on its production and profitability.
- Government subsidies make up a big chunk of the NEV sales. Delayed subsidy payments by the local government will adversely impact working capital and cash flow.
- The reduction of local government subsidies will hurt NEV sales.

FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
Key Metrics					
P/E (reported) (x)	18.5	13.7	11.8	10.7	8.8
Core P/E (x)	18.5	13.7	11.8	10.7	8.8
P/BV (x)	4.5	3.8	3.3	3.0	2.6
P/NTA (x)	4.5	3.7	3.3	2.9	2.6
Net dividend yield (%)	3.0	6.9	5.1	5.6	6.8
FCF yield (%)	3.4	9.8	2.3	9.1	8.7
EV/EBITDA (x)	7.1	9.3	7.8	7.0	5.8
EV/EBIT (x)	8.6	11.1	9.4	8.5	7.0
INCOME STATEMENT (CNY m)					
Revenue	25,728	31,211	35,587	37,492	42,268
Gross profit	6,092	7,753	8,993	9,602	11,056
EBITDA	3,783	4,637	5,608	6,039	7,123
Depreciation	(592)	(652)	(919)	(1,035)	(1,142)
Amortisation	(70)	(79)	(39)	(45)	(50)
EBIT	3,122	3,906	4,649	4,960	5,931
Net interest income /(exp)	25	142	126	80	130
Associates & JV	98	62	68	78	86
Exceptionals	0	0	0	0	0
Other pretax income	(194)	(6)	(68)	152	250
Pretax profit	3,051	4,104	4,776	5,270	6,397
Income tax	(398)	(517)	(597)	(659)	(800)
Minorities	(40)	(52)	(63)	(69)	(84)
Discontinued operations	0	0	0	0	0
Reported net profit	2,613	3,535	4,116	4,542	5,513
Core net profit	2,613	3,535	4,116	4,542	5,513
BALANCE SHEET (CNY m)					
Cash & Short Term Investments	6,016	6,699	4,877	6,608	7,506
Accounts receivable	9,745	12,052	15,323	15,556	18,412
Inventory	1,160	1,547	1,821	1,910	2,138
Property, Plant & Equip (net)	4,586	4,657	6,937	7,402	7,661
Intangible assets	940	1,464	1,675	1,880	2,080
Investment in Associates & JVs	0	0	0	0	0
Other assets	1,377	3,720	3,158	3,257	3,506
Total assets	**23,823**	**30,139**	**33,792**	**36,614**	**41,302**
ST interest bearing debt	0	0	0	0	0
Accounts payable	9,105	12,191	13,843	14,518	16,247
LT interest bearing debt	0	0	0	0	0
Other liabilities	3,858	5,009	5,300	5,562	6,232
Total Liabilities	**12,963**	**17,200**	**19,143**	**20,080**	**22,479**
Shareholders Equity	10,804	12,861	14,507	16,324	18,529
Minority Interest	56	79	141	211	295
Total shareholder equity	**10,861**	**12,939**	**14,648**	**16,534**	**18,824**
Total liabilities and equity	**23,823**	**30,139**	**33,792**	**36,614**	**41,302**
CASH FLOW (CNY m)					
Pretax profit	3,051	4,104	4,776	5,270	6,397
Depreciation & amortisation	662	731	959	1,080	1,192
Adj net interest (income)/exp	25	142	126	80	130
Change in working capital	532	169	(516)	552	(843)
Cash taxes paid	(398)	(517)	(597)	(659)	(800)
Other operating cash flow	(737)	1,579	(68)	152	250
Cash flow from operations	3,205	6,010	4,553	6,165	5,860
Capex	(1,565)	(1,281)	(3,450)	(1,750)	(1,650)
Free cash flow	1,640	4,729	1,103	4,415	4,210
Dividends paid	(1,477)	(3,321)	(2,470)	(2,725)	(3,308)
Equity raised / (purchased)	204	737	0	0	0
Change in Debt	(165)	0	0	0	0
Perpetual securities distribution	0	0	0	0	0
Other invest/financing cash flow	113	(1,388)	(459)	38	(9)
Effect of exch rate changes	18	53	0	0	0
Net cash flow	333	810	(1,826)	1,728	893

FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
Key Ratios					
Growth ratios (%)					
Revenue growth	15.9	21.3	14.0	5.4	12.7
EBITDA growth	28.1	22.6	20.9	7.7	17.9
EBIT growth	31.6	25.1	19.0	6.7	19.6
Pretax growth	16.5	34.5	16.4	10.3	21.4
Reported net profit growth	15.5	35.3	16.4	10.3	21.4
Core net profit growth	15.5	35.3	16.4	10.3	21.4
Profitability ratios (%)					
EBITDA margin	14.7	14.9	15.8	16.1	16.9
EBIT margin	12.1	12.5	13.1	13.2	14.0
Pretax profit margin	11.9	13.2	13.4	14.1	15.1
Payout ratio	56.5	93.9	60.0	60.0	60.0
DuPont analysis					
Net profit margin (%)	10.2	11.3	11.6	12.1	13.0
Revenue/Assets (x)	1.1	1.0	1.1	1.0	1.0
Assets/Equity (x)	2.2	2.3	2.3	2.2	2.2
ROAE (%)	25.8	29.9	30.1	29.5	31.6
ROAA (%)	12.3	13.1	12.9	12.9	14.2
Liquidity & Efficiency					
Cash conversion cycle	(9.7)	(16.9)	(14.9)	(10.7)	(9.4)
Days receivable outstanding	106.0	125.7	138.5	148.3	144.7
Days inventory outstanding	23.6	20.8	22.8	24.1	23.3
Days payables outstanding	139.4	163.4	176.2	183.0	177.4
Dividend cover (x)	1.8	1.1	1.7	1.7	1.7
Current ratio (x)	1.4	1.4	1.3	1.3	1.4
Leverage & Expense Analysis					
Asset/Liability (x)	1.8	1.8	1.8	1.8	1.8
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	na	na	na	na	na
Debt/EBITDA (x)	0.0	0.0	0.0	0.0	0.0
Capex/revenue (%)	6.1	4.1	9.7	4.7	3.9
Net debt/ (net cash)	(6,016.3)	(6,699.2)	(4,876.8)	(6,608.4)	(7,505.7)

Source: Company; Maybank

Historical recommendations and target price: Zhengzhou Yutong Bus (600066 CH)



July 18, 2016

BYD Company (1211 HK)

Driving in neutral

HOLD

Share Price	HKD 51.25
12m Price Target	HKD 50.00 (-2%)
Previous Price Target	*HKD 40.00*

Strong earnings momentum, but fairly valued

Reiterate HOLD rating on BYD with TP increased 25% to HKD50. We see limited potential for a re-rating in the coming 12 months as: 1) shares are fairly valued; 2) co. faces headwinds in its largest eBus/PHEV market, Shenzhen/Shanghai; and 3) pressure on margins from subsidy reduction. BYD is benefiting from strong operating leverage thanks to its vertically integrated business model. However, this is mostly priced in while the market starts to discount the slower growth in 2017. In addition, its recent announcement of developing a light rail business is not a strong near-term catalyst.

Moderating outlook in 2017

We expect 2017 earnings momentum will slow down. This is because of: 1) moderating NEV growth in Shanghai (nearly half of the PHEV market) and Shenzhen (50% of its eBus market); and 2) reduction of gov. subsidy curbing margin expansion. Our 2017 sales forecast is around 4% below consensus, with a stable net margin assumption resulting in core EPS growth of 11% YoY, which is significant below ~184% in 2016.

Strong expansion in 2016

BYD is a vertically integrated NEV producer and one of a few auto manufacturers in China with in-house lithium battery production. Given the strong NEV sales (up 91% YoY in 2016) and rising economies of scale, we project its core net margin to increase to 4.4% this year from 1.8% in 2015. In addition, the government policy on limiting foreign battery supply should also strengthen BYD's leading position this year. Overall, we still believe BYD's lithium battery production is its key competitive advantage in the NEV market near term.

Fair valuation; Remain HOLD

BYD shares have increased 17% YTD, despite the consensus EPS forecast rising 72% YTD. In our view, the strong 2016 EPS growth is mostly priced in because the market will continue to discount the slower growth in 2017 from the reduction in government subsidy. We have increased our earnings forecasts by 16-20% for 2016-17 to reflect its strong operating leverage. Our new TP of HKD50 is derived from a SOTP valuation with unchanged target multiples, but rolled forward to 2017. Remain HOLD.

FYE Dec (CNY m)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	55,366	77,612	97,845	108,388	124,288
EBITDA	4,522	7,621	12,286	13,570	15,926
Core net profit	434	2,823	4,344	4,835	6,341
Core EPS (CNY)	0.18	1.14	1.59	1.77	2.32
Core EPS growth (%)	(25.5)	551.3	39.2	11.3	31.2
Net DPS (CNY)	0.00	0.00	0.32	0.35	0.46
Core P/E (x)	252.2	38.7	27.8	25.0	19.1
P/BV (x)	4.3	3.4	2.5	2.2	2.0
Net dividend yield (%)	0.0	0.0	0.7	0.8	1.0
ROAE (%)	1.8	9.8	10.6	9.3	11.0
ROAA (%)	0.5	2.7	3.5	3.5	4.3
EV/EBITDA (x)	20.7	16.8	12.3	11.0	9.4
Net debt/equity (%)	101.3	96.1	41.7	34.7	29.7
Consensus net profit	-	-	3,961	4,881	5,852
MKE vs. Consensus (%)	-	-	9.7	(0.9)	8.4

Company Description

BYD is engaged in the R&D, manufacture and distribution of automobiles, secondary rechargeable batteries and mobile phone components.

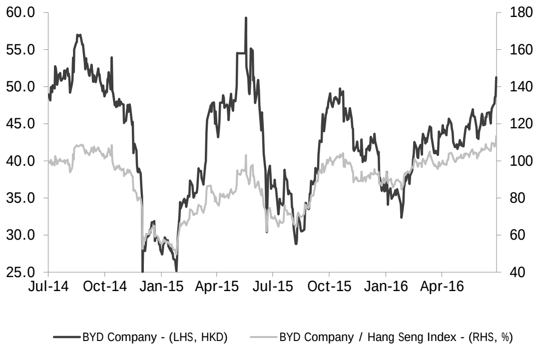
Statistics

52w high/low (HKD)	51.25/28.80
3m avg turnover (USDm)	27.2
Free float (%)	69.0
1211 HK Issued shares (m)	915
1211 HK Market cap	HKD46.9B
	USD6.0B
002594 CH Issued shares (m)	1,561
002594 CH Market cap	CNY98.3B
	USD14.7B

Major shareholders:

Berkshire Hathaway, Inc.	24.6%
CITIC Capital Investment Management Ltd.	7.5%
LL Group LLC	6.3%

Price Performance



	-1M	-3M	-12M
Absolute (%)	16	18	41
Relative to index (%)	10	16	64

Source: FactSet

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Automotive

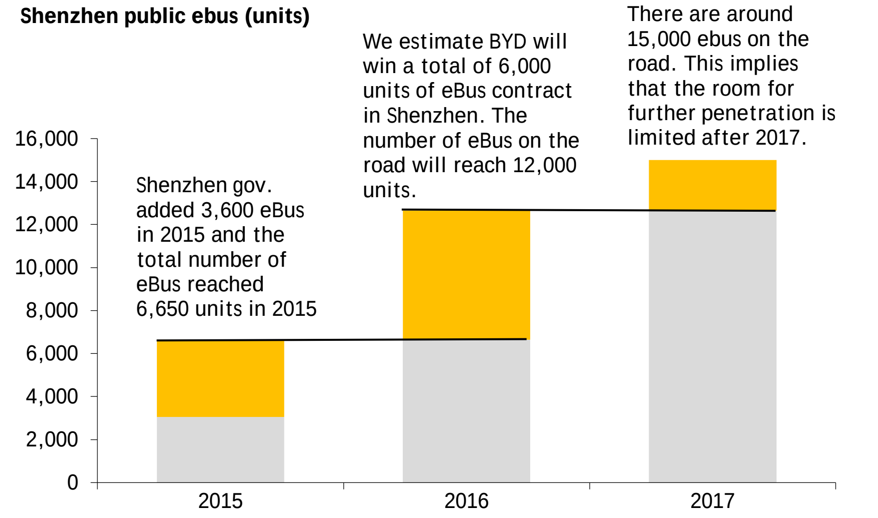
China

eBus sales momentum to slow

The largest business segment for BYD is eBus, which accounts for 18% of sales in 2016E, but nearly 33% of gross profit given its large ASP and subsidy amount. BYD targets to win 6,000 units from eBus contracts in Shenzhen. We expect BYD's shipments this year will double to 13k units and the Shenzhen government procurement represents nearly half of its sales.

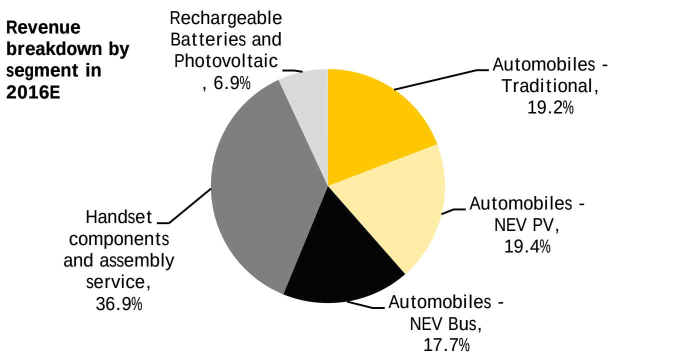
However, sales growth will moderate next year given: 1) reduction of government subsidy; and 2) limited room for expansion in its major market Shenzhen. By the end of this year, Shenzhen will have nearly 12,000 units of eBus on the road, and the penetration rate will reach 80%. We believe the further growth potential in Shenzhen is limited and BYD needs to expand into new markets for future growth. We expect BYD eBus unit sales growth will moderate to 35% YoY in 2017e, which is in-line with market expectations. Our forecast for BYD's 2017 revenue is around 4% below the market consensus.

Fig 33: Shenzhen is the largest market for BYD



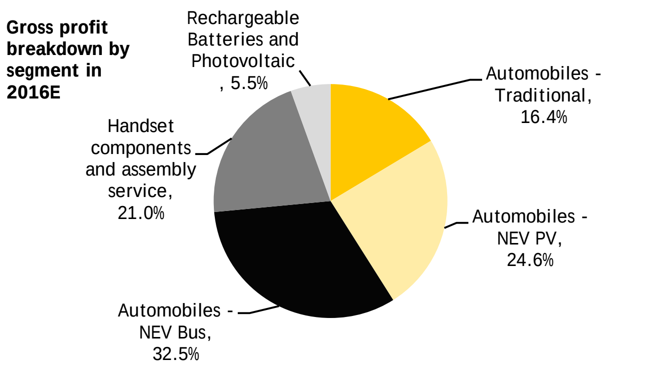
Source: Local media; Company and Maybank Kim Eng

Fig 34: NE PV accounts for 19% of BYD total sales in 2016



Source: Company, Maybank Kim Eng

Fig 35: But nearly 25% of gross profit.



Source: Company, Maybank Kim Eng

PHEV – uneven playing field

Shanghai is the largest PHEV market in China and BYD is the dominated player. However, we believe it will face stronger headwinds going forward, given various new local policies.

- Shanghai government will reduce the subsidy for automakers by half with accumulated NEV sales (since 2014) over 40,000 units in the city, and will terminate the subsidy after the accumulated NEV sales reach 60,000 units. Given that BYD's Qin and Tang sales in Shanghai reached over 30,000 in May, BYD's NEV buyers may not able to enjoy a full local subsidy in the second half (i.e. CNY10,000), while its peers, such as SAIC and BAIC are still entitled to full benefit as sales have yet to reach the quota. As a result, since BYD will no longer be on the same playing field with its peers, its sales will face a stronger headwind in the coming few months if it does not cut prices to compensate for the subsidy difference. We believe the impact in 2016 will be limited, but have factored in a 6% negative earnings impact to BYD assuming it provides additional incentives to buyers (i.e. 30,000 units) in 2017.

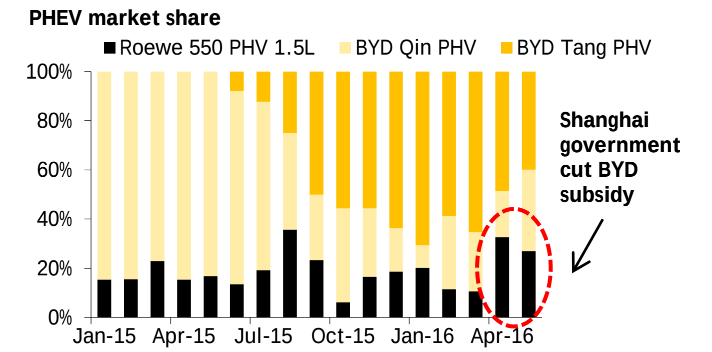
Fig 36: Shanghai introduced 按量退坡 falling subsidy on sales volume.

NEV Subsidy	PV	CV	Special vehicle
Subsidy x 1	S≤40,000	S≤1,000	TS≤3,000
Subsidy x 0.5	40,000<S≤60,000	1,000<S≤2,000	3,000<TS≤5,000
0	S>60,000	S>2,000	TS>5,000

Note: S = accumulated sales in Shanghai of a NEV auto OEM since 1 Jan 2014; TS = accumulated sales in Shanghai of a NEV auto OEM since 1 Jan 2016.
Source: Maybank Kim Eng

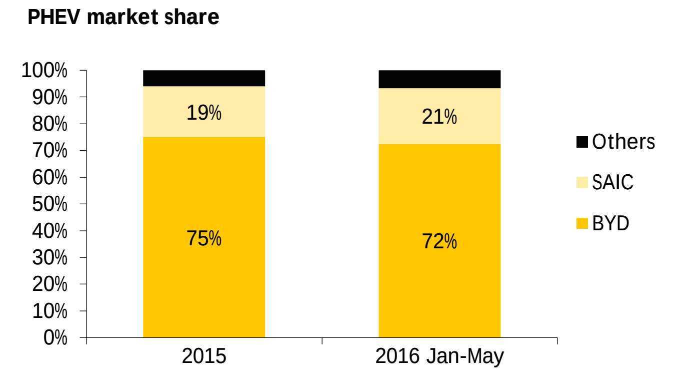
- **Market size in other cities still small.** The potential market size in other cities (e.g. Guangzhou, Shenzhen and Tianjin) with license plate restriction policies will be much less than that in Shanghai near term (Fig 39). This is because auction fees or license registration costs of those cities are around CNY20,000-30,000, which is 60% below the expenses in Shanghai at CNY85,000. In addition, Beijing is a large market, but, except for BEV, the government does not provide any free licenses to PHEV buyers.
- Overall we project BYD's PHEV sales to increase 65% YoY this year (lower than guidance of 100%), and moderate to 35% YoY in 2017. This is lower than our PHEV market growth projection of 50% next year, mainly driven by new rivals (e.g. Geely and GAC). We estimate BYD will sell 98k units in 2016 (Shanghai accounts for 30-40% of its total sales).

Fig 37: The rising BYD PHEV Tang shipments offset the weak Qin sales



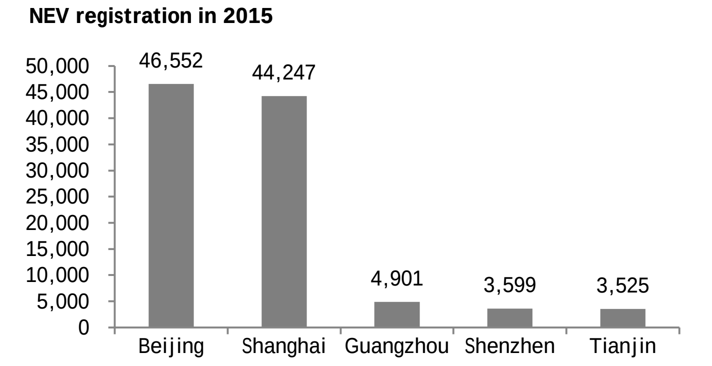
Source: Wind, CPCA, Maybank Kim Eng

Fig 38: But SAIC-Roewe gained share since Shanghai introduced new policies.



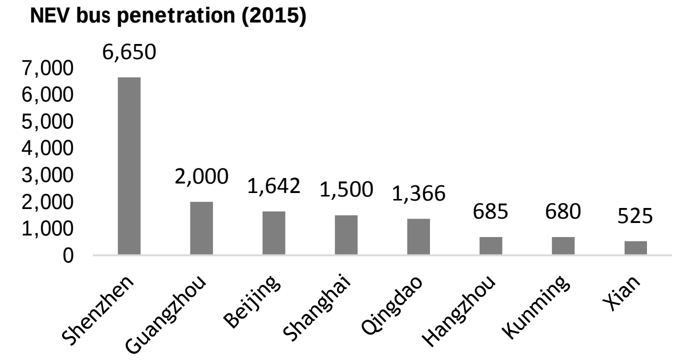
Source: Wind, CPCA, Maybank Kim Eng

Fig 39: Beijing and Shanghai are the largest NEV markets in China



Source: Local media; gasgoo and Maybank Kim Eng

Fig 40: BYD is benefiting from the strong push of NEV bus by Shenzhen local government.

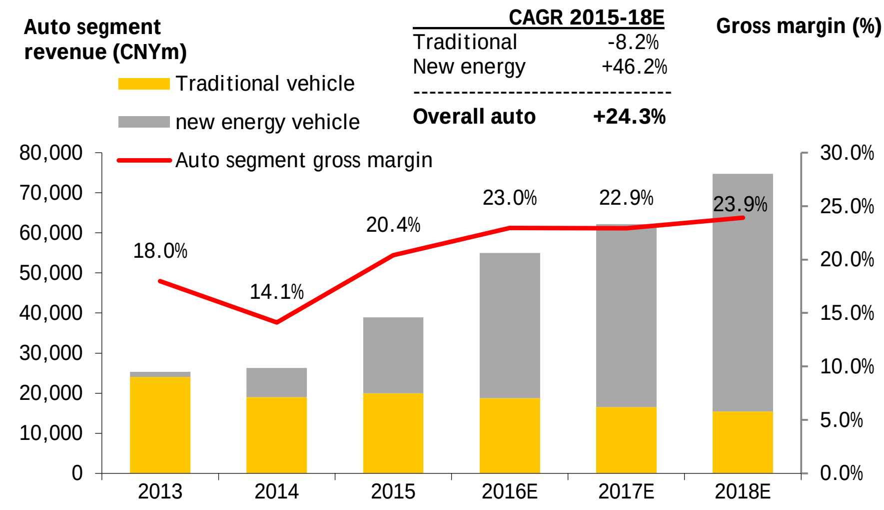


Source: Local media; gasgoo and Maybank Kim Eng

Margin expansion curbed by falling subsidy

Given BYD's vertically integrated business model, its margins are highly sensitive to its utilization rate and scale of production. We expect its overall gross margin will reach 18.8% this year (vs. 13.8% in 2014 and 17.5% in 1Q16). This is mainly driven by the scale benefit of its auto business. We project the auto segment gross margin to expand to 23% this year thanks to the rapid rise of battery production and favourable raw material costs. However, we believe the upside is limited in 2017-18 due to the reduction of government subsidies, potential higher raw material prices, and rising competition.

Fig 41: BYD's Auto segment GPM improved along with rising contribution of revenue



Source: Company, Maybank Kim Eng

Falling battery production cost to offset subsidy cut

We expect the overall subsidy to fall 20% in 2017 and another 25% in 2018. We expect BYD to gradually reduce the actual selling price amid rising competition.

Fig 42: Our sales and ASP assumptions

CNYm (Dec Yr End)	2016E	2017E	2018E	2019E
- Sales vol. (units)	30,000	48,000	67,200	87,360
y/y	400.0%	60.0%	40.0%	30.0%
- Subsidy	80,000	64,000	64,000	48,000
y/y	0.0%	-20.0%	0.0%	-25.0%
- Selling price	113,113	110,850	99,765	91,784
y/y	-5.0%	-2.0%	-10.0%	-8.0%
- ASP (CNY)	193,113	174,850	163,765	139,784
y/y	-3.0%	-9.5%	-6.3%	-14.6%
- BEV (CNYm)	**5,793**	**8,393**	**11,005**	**12,212**
y/y	385.0%	44.9%	31.1%	11.0%
- Sales vol. (units)	98,400	132,840	185,976	241,769
y/y	65.3%	35.0%	40.0%	30.0%
- Subsidy	37,000	29,600	29,600	22,200
y/y	-7.5%	-20.0%	0.0%	-25.0%
- Selling price	96,576	91,748	82,573	75,967
y/y	-2.0%	-5.0%	-10.0%	-8.0%
- ASP (CNY)	133,576	121,348	112,173	98,167
y/y	-3.6%	-9.2%	-7.6%	-12.5%
- PHEV (CNYm)	**13,144**	**16,120**	**20,861**	**23,734**
y/y	59.4%	22.6%	29.4%	13.8%
- Sales vol. (units)	13,000	17,550	22,815	26,237
y/y	114.7%	35.0%	30.0%	15.0%
- Subsidy	630,000	504,000	504,000	378,000
y/y	NA	-20.0%	0.0%	-25.0%
- Selling price	700,000	700,000	700,000	700,000
y/y	NA	0.0%	0.0%	0.0%
- ASP (CNY)	1,330,000	1,204,000	1,204,000	1,078,000
y/y	-15.5%	-9.5%	0.0%	-10.5%
- K9 (CNYm)	**17,290**	**21,130**	**27,469**	**28,284**
y/y	81.4%	22.2%	30.0%	3.0%

Source: Maybank Kim Eng

In addition to the scale benefit, the falling battery production cost could ease part of the pressure from the subsidy cut. We now assume that battery production costs will decrease by 10% per year during 2016-17E. However, we believe that another strong margin expansion in 2017-18 is unlikely.

Fig 43: We expect BYD GPM to fall slightly in 2017 amid 20% of subsidy cut

	2016E	2017E	2018E	2019E
Key cost assumptions				
Unit battery cost (YoY)	-10.0%	-10.0%	-8.0%	-8.0%
Other component cost (YoY)	-10.0%	-10.0%	-5.0%	-12.0%
Gross margin assumption				
- BEV/PHEV PV GPM	22.4%	21.8%	21.0%	18.6%
- EV eBus GPM	32.3%	31.2%	32.9%	28.5%
- ICE PV GPM	15.0%	14.0%	14.0%	14.0%
Automobiles GPM	23.0%	22.9%	23.9%	21.4%

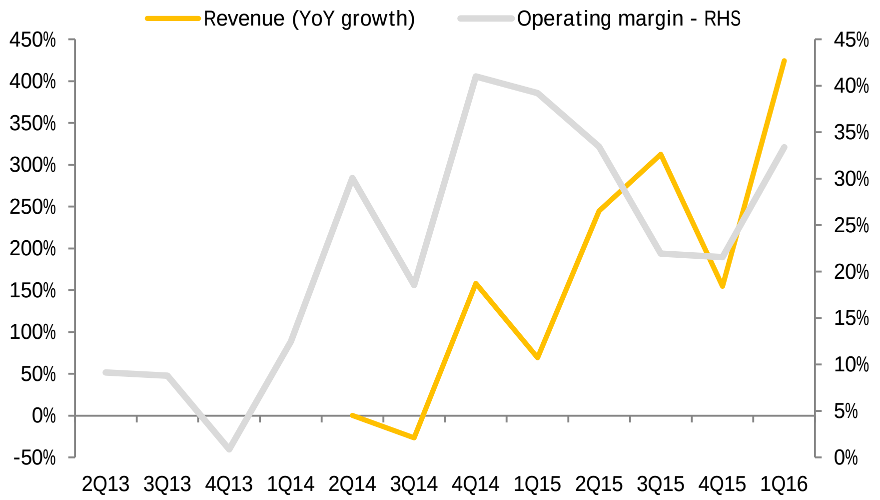
Source: Maybank Kim Eng

Battery production is a key swing factor

We believe one of the key drivers for margin expansion this year is the in-house battery production. BYD not only assembles the battery into pack, but also produces part of the basic material, including cathode, anode, and separator. We estimate its lithium production cost is nearly CNY1/Wh, which is much lower than the current street selling price of at least CNY1.5/Wh. Some peers are selling at CNY2.4/Wh, including battery management system (BMS). As such, we believe BYD has a much better cost advantage vs. its peers.

We note that A-share listed battery maker, Guoxuan High-Tech Co Ltd (002074 CH, NR) achieved a gross/operating margin of ~45%/22% in 2H15, which further improved to 51%/33% in 1Q16 on the back of a strong rise in production. Its revenue surged 425% YoY in 1Q to CNY1167m. We discussed this issue with management who shared our view that the impact of a rise in some raw material costs is manageable, but the margin significantly benefitted from economies of scale.

Fig 44: A share listed battery maker, Guoxuan High-Tech Co Ltd (002074 CH, NR), achieved strong margin expansion in 1Q16



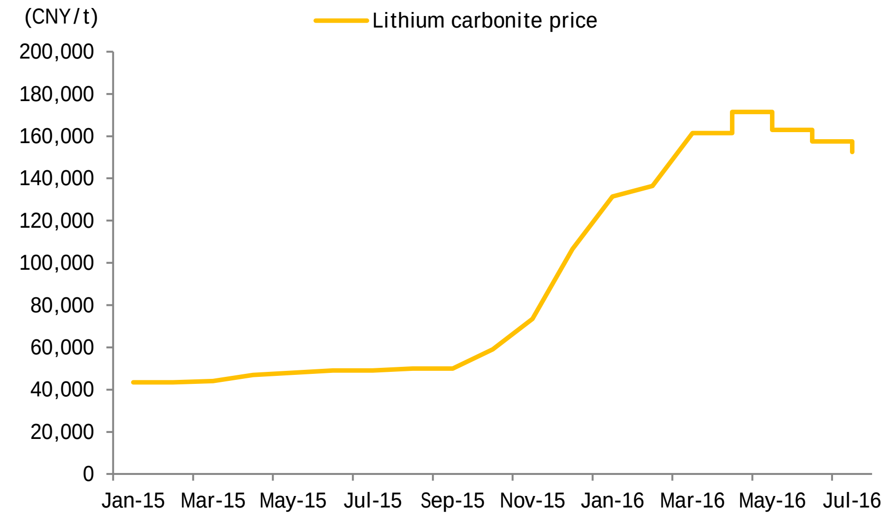
Source: Company, Bloomberg, Maybank Kim Eng

Raw material price

The price of lithium carbonite, one of the raw materials for producing lithium batteries, has soared 52% YTD after a 60% QoQ increase in 4Q15. In Mar 2016, the lithium carbonite price rose 267% YoY from CNY44,000/t to CNY161,500/t. This was mainly driven by strong demand from rising automotive battery production in China.

We believe the rapid increase in the lithium carbonite price will have a mild impact on BYD and other battery suppliers, as the cost of lithium carbonite just amounts to less than 8% of the total battery cost. BYD just set up a new JV to secure lithium supply for the future.

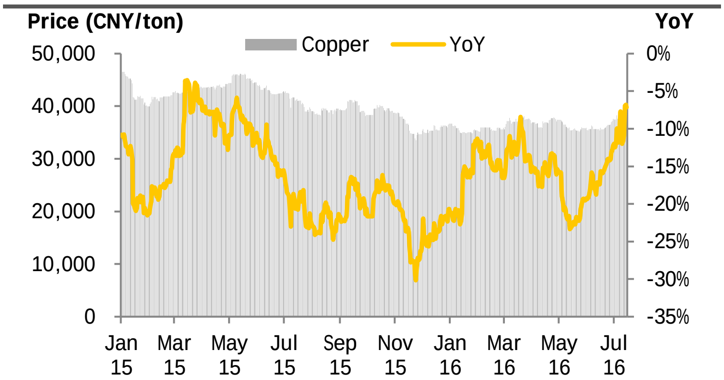
Fig 45: Lithium carbonite price has increased 16% YTD



Source: Wind, Maybank Kim Eng

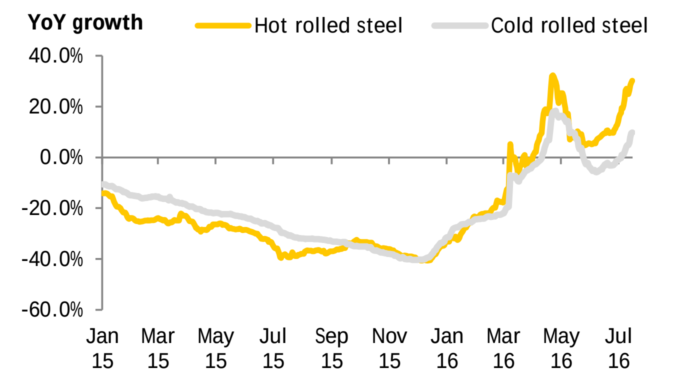
Copper and hot/cold rolled steel prices fell 15-20% YoY in 1Q16, but rebounded in 2Q16 when the futures market surged. However, the steel prices have dropped over 15% from the peak, but remain up 25% YTD. We believe auto OEMs still enjoyed a favourable raw material price in 1H16, but a price recovery is one of the risk factors for next year.

Fig 46: Copper price is up 5% YTD



*Note: *Six months rolling avg. Source: Bloomberg, Maybank Kim Eng*

Fig 47: Steel price is up 25% YTD



Source: Bloomberg, Maybank Kim Eng

Light rail not a catalyst

BYD's chairman Wang Chuanfu announced early this month that the company is planning to develop light rails systems in lower tier cities by adopting lithium battery technology. He added that the cost of electric light rail system is just one sixth of that of the subway, and BYD is working on the whole system, including sections for train integration, interior, electrical communication, traction systems, and integrated technical and testing centers.

Management confirmed that it is negotiating a number of contracts with local governments, including Shatou in Guangdong. However, no detailed information has been provided at this time. We see the light rail market is growing rapidly in China (up 27% YoY in 2015). However, our initial analysis indicates that this new venture will have a limited impact on BYD's sales and earnings in the coming 1-2 years.

- **Limited sales impact:** We assume that BYD is able to secure a contract to build a 40km light rail system in 2017 (we believe it is a blue sky case), which translates to revenue of about CNY6bn. This equals just 5% of its total revenue in 2017. We believe the earnings contribution will be very limited near term.
- **Rising capex:** We estimate that the company will invest at least CNY1bn of capex into this new business, and the initial ramp-up and depreciation costs may have a mildly negative impact on its P&L. We now project BYD's overall capex will decrease to CNY8bn this year from CNY11bn in 2015, and increase to CNY10bn in 2017E due to the new investment in rail system. In addition to the battery production expansion, BYD may further increase capex to support the new business after its A-share placement.
- **Tightening up cash flow:** The contract structure of the infrastructure project is different from the automobile business and the major customers are local governments. The payment terms may be longer than BYD's current business. This will increase its receivables and its working capital requirement.

Fig 48: Our scenario analysis indicates the light rail system business to have a mild impact to BYD's sales

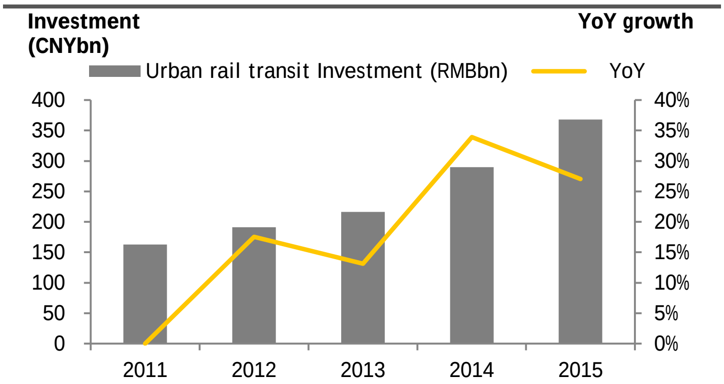
	Value	Comments
BYD new build (km)	40	This represents around 8% of the total China market
Revenue per km (CNYm)	150	This is around 20% of China subway investment of CNY500-1,000m
BYD light rail revenue in 2017 (CNYm)	6,000	This is just 5% of BYD's FY17 total sales
Market size in 2015 (CNYm)	368,300	This means BYD can capture less than a 2% market share

Source: Maybank Kim Eng

Nevertheless, this is a growing industry with high entry barriers. According to the China Association of Metro, China has granted to 44 cities to build urban rail transit systems. By the end of last year, 26 cities adopted systems with total operation length of 3,618km, in which subway and mono & light rail accounts for 74% and 10% of the total length respectively with trams, Maglev and others accounting for another 16%.

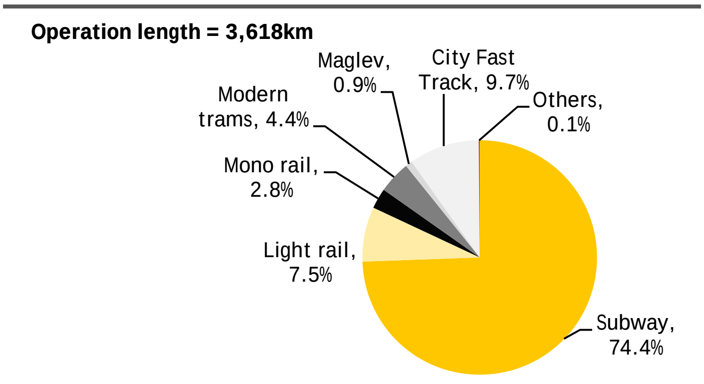
China urban rail transit investment grew 27% YoY in 2015 to CNY368bn. The association expect the trend will continue as another 50 cities (mostly tier 3-4) will build urban rail system by 2020. The total operation length will increase by 65% to 6,000km, implying an average of 476km new builds p.a. in 2016-20.

Fig 49: Beijing and Shanghai are the largest NEV markets in China



Source: Wind, Maybank Kim Eng

Fig 50: BYD is benefiting from the strong push for NEV bus by the Shenzhen local government.



Source: Wind, Maybank Kim Eng

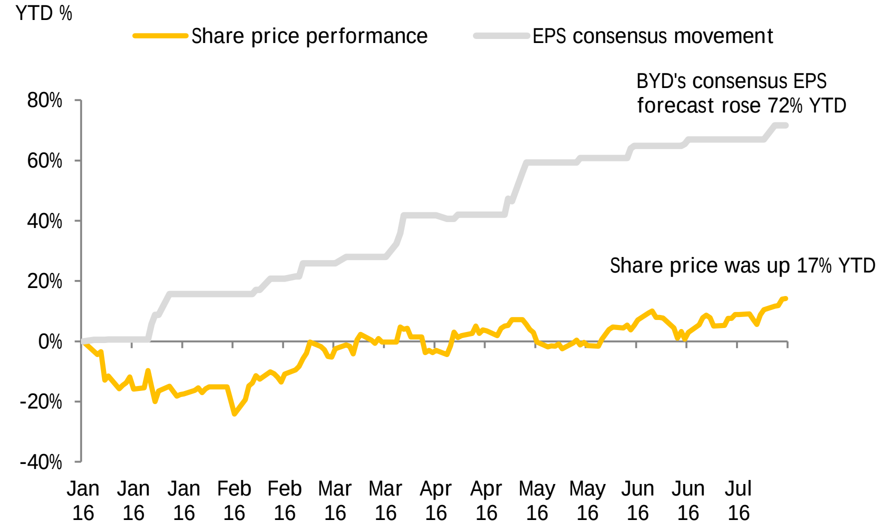
Valuation

BYD shares have outperformed the overall auto sector, rising 17% YTD. However, we do not see any further re-rating because the consensus 2016 EPS forecast rose 72% in the past 6 months. In our view, the strong 2016 reported EPS growth (up 42% YoY) is mostly priced in, while the market has started to discount the slower growth rate in 2017 from the government subsidy reduction.

The shares currently trade at a PER of 27.8x/25.0x 2016/17 EPS, higher than the overall auto sector PER of 7x-8x. Taking into account its high depreciation due to heavy R&D and capex investment in batteries, its 2016/17 EV/EBITDA at 12.3x/11.0x is also higher than Geely and Great Wall's 5x-6x, and also solar and wind peers at 6x-10x.

Our TP of HKD50 is based on a Sum-of-the-parts (SOTP) valuation, which represents 2% downside. Our TP implies 24.4x 2017 PER and 2.2x PB. As a result of the limited upside to our TP, we reiterate our HOLD rating on the stock.

Fig 51: BYD has limited re-rating upside potential this year



Source: Bloomberg, Maybank Kim Eng

Sum-of-the-parts (SOTP)

To derive our SOTP valuation, we break down the business into 4 major segments: 1) New Energy Automobile; 2) Traditional Automobile; 3) Handset components and assembly service; and 4) Rechargeable Batteries and Photovoltaic. We found that 74% of our TP is based on the NEV business, where sales and earnings continue to rise. We expect the segment to account for 42% of total sales in 2017 and 54% of EBITDA (incl. gov. subsidies).

Fig 52: BYD's SOTP valuation

Dec Yr End	Valuation method	2017 EBITDA (CNYm)	Target multiple	Enterprise value
Segment				
1) Auto (NEV) - incl. subsidy	EBITDA	8,038	13.0	104,498
2) Auto (Traditional)	EBITDA	1,486	6.5	9,662
3) Handset components and assembly service	EBITDA	3,575	3.6	12,871
4) Rechargeable Batteries and Photovoltaic	EBITDA	1,788	6.4	11,445
Total firm value				138,475
Less: Net debt				19,592
Total equity value				118,883
Number of share				2,737
SOTP equity value (CNY)				43.4
SOTP equity value (HKD)				50.0
Current price (HKD)				51.25
Upside/downside				-2%

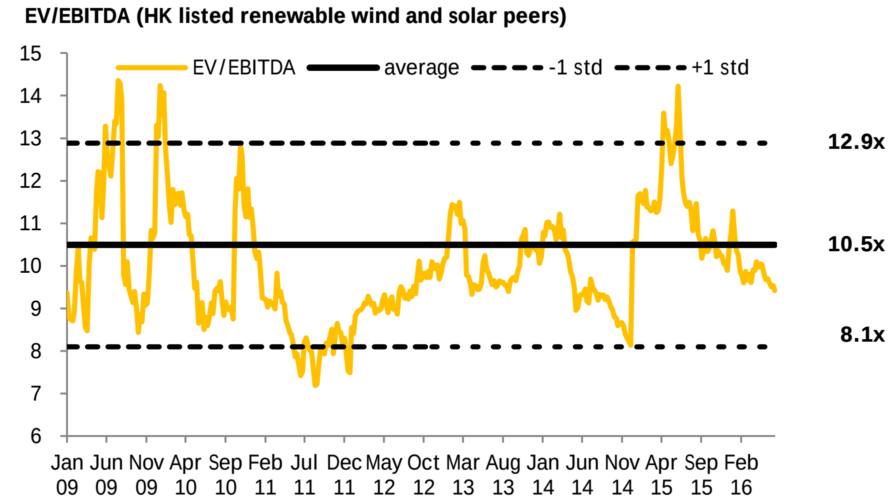
Source: Bloomberg, Maybank Kim Eng

New energy vehicle business valuation

The value of this segment accounts for nearly 75% of the total market cap. We assigned a 13x EV/EBITDA multiple to derive the value of BYD's NEV segment. We believe the multiple is justified given:

- This is similar to the high end (i.e. 12.9x) of the HK listed renewable wind and solar peers (Fig. 53);
- This is also much lower than the pure NEV play, Tesla, which now trades at 46.6x and 24.4x 2016-17 EV/EBITDA.

Fig 53: Mkt. cap. weighted avg. EV/EBITDA of HK listed renewable wind and solar peers



Source: Bloomberg, Maybank Kim Eng

Fig 54: Valuation comparison of domestic renewable energy peers

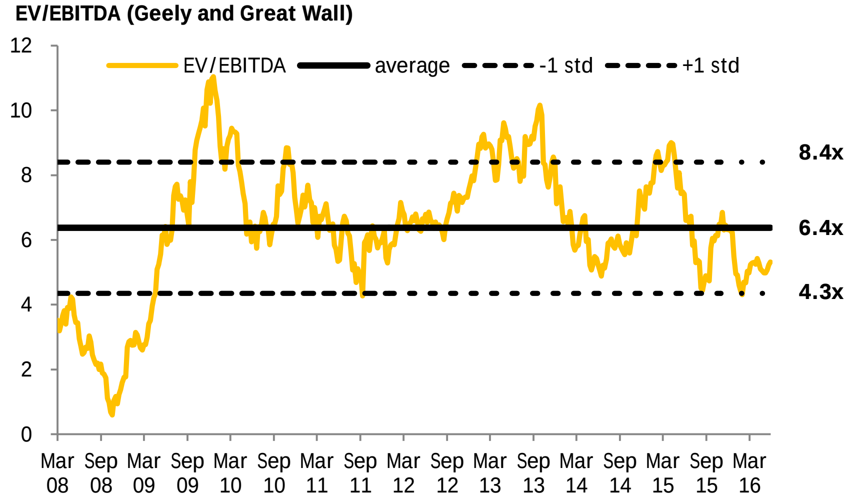
Name	Code	Price (lcy)	Mkt cap (USDm)	PE 2016E	PE 2017E	PB 2016E	PB 2017E	RoE 2016E	RoE 2017E	EV/Sales 2016E	EV/Sales 2017E	EV/EBIT 2016E	EV/EBIT 2017E	EV/EBITDA 2016E	EV/EBITDA 2017E
Solar															
Gcl-Poly Energy	3800 HK	1.08	2,589	6.9	6.4	0.8	0.7	13.3	12.9	2.0	2.1	8.2	7.8	6.3	5.7
Xinyi Solar	968 HK	3.07	2,672	11.0	8.4	2.7	2.2	28.0	30.1	3.9	3.2	11.0	9.1	8.3	6.1
Gcl New Energy	451 HK	0.34	824	19.7	8.8	n.a.	n.a.	7.8	17.6	n.a.	n.a.	n.a.	n.a.	9.8	6.1
China Singyes Solar	750 HK	3.08	331	4.9	4.5	0.5	0.5	9.6	9.5	1.0	1.0	7.4	7.2	5.9	5.5
Mkt weighted avg.				**10.2**	**7.5**	**1.7**	**1.4**	**18.5**	**20.5**	**2.9**	**2.6**	**9.5**	**8.4**	**7.5**	**5.9**
Wind															
Xinjiang Goldwind Science	2208 HK	10.86	6,023	8.0	7.4	1.4	1.2	18.3	16.8	1.7	1.8	13.6	13.4	11.7	10.1
China Longyuan Power	916 HK	6.18	6,405	11.9	10.2	1.1	1.0	9.2	9.9	6.1	5.7	16.0	14.4	8.7	7.7
Huaneng Renewables	958 HK	2.50	3,136	8.9	7.5	1.1	0.9	12.0	12.8	7.9	7.2	14.8	13.3	8.1	7.1
Beijing Jingneng	579 HK	2.47	2,188	6.7	6.0	0.9	0.8	13.9	14.3	2.6	2.2	12.9	9.9	8.9	7.8
Huadian Fuxin Energy	816 HK	1.79	1,941	5.9	5.2	0.6	0.6	11.3	11.9	5.4	5.4	16.4	16.3	8.8	7.9
China Datang Renewable	1798 HK	0.81	760	15.2	8.9	0.5	0.4	3.1	5.1	8.6	7.8	22.7	19.0	9.1	7.6
Concord New Energy	182 HK	0.44	496	5.8	4.7	0.6	0.5	10.5	11.9	1.7	1.9	13.0	12.7	6.4	5.0
Mkt weighted avg.				**9.2**	**7.9**	**1.1**	**1.0**	**12.7**	**12.8**	**4.7**	**4.4**	**15.0**	**13.8**	**9.5**	**8.3**

Note: Prices as of 15th July 2016
Source: Bloomberg, Maybank Kim Eng

Traditional vehicle business valuation

We apply a 6.5x EV/EBITDA multiple to BYD's traditional automobile business in order to derive a value for this part of the business. Our target multiple is in line with the long-term average of the domestic local brands (Geely and Great Wall).

Fig 55: Domestic auto peers mkt. cap. weighted avg. EV/EBITDA chart



Source: Bloomberg, Maybank Kim Eng

Fig 56: Valuation comparison of domestic auto manufacturers peers

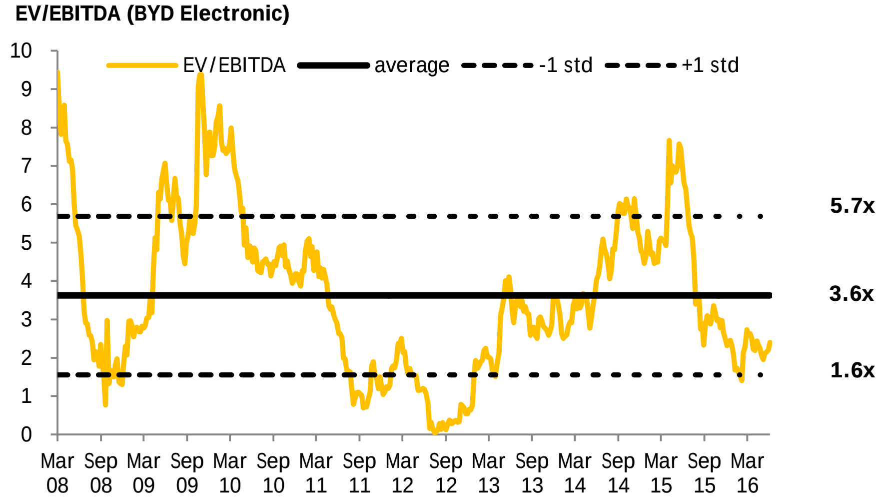
Name	Code	Price (lcy)	Mkt cap (USDm)	PE 2016E	PE 2017E	PB 2016E	PB 2017E	RoE 2016E	RoE 2017E	EV/Sales 2016E	EV/Sales 2017E	EV/EBIT 2016E	EV/EBIT 2017E	EV/EBITDA 2016E	EV/EBITDA 2017E
Auto manufacturers															
Great Wall Motor	2333 HK	6.91	11,411	7.7	8.3	1.3	1.1	17.3	14.5	0.7	0.7	6.9	7.9	5.5	5.8
Geely Automobile	175 HK	4.64	5,267	10.7	8.3	1.6	1.3	15.7	17.6	0.7	0.5	9.6	6.6	6.5	4.6
Mkt weighted avg.				**8.7**	**8.3**	**1.4**	**1.2**	**16.8**	**15.4**	**0.7**	**0.6**	**7.8**	**7.4**	**5.8**	**5.4**

Note: Prices as of 15th July 2016
Source: Bloomberg, Maybank Kim Eng

Handset components and assembly service business valuation

We apply a multiple of 3.6x EV/EBITDA for BYD's handset components and assembly service business. This is similar to the historical average of its major subsidiary, BYD Electronic (285 HK, NR) of about 3.6x, and its metal casing peer Catcher, which is trading at 3.5x, and the assembly service peer, Hon Hai at 4.3x.

Fig 57: BYD (1211 HK)'s subsidiary BYD Electronic (285 HK, NR) EV/EBITDA



Source: Bloomberg, Maybank Kim Eng

Fig 58: Valuation comparison of mobile peers

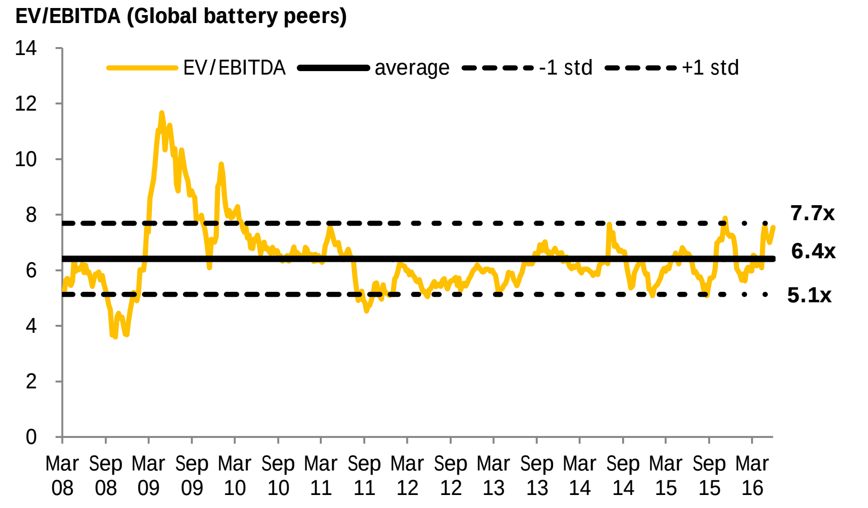
		Price	Mkt cap	PE		PB		RoE		EV/Sales		EV/EBIT		EV/EBITDA	
Name	**Code**	**(lcy)**	**(USDm)**	**2016E**	**2017E**	**2016E**	**2017E**	**2016E**	**2017E**	**2016E**	**2017E**	**2016E**	**2017E**	**2016E**	**2017E**
Mobile peers															
Hon Hai Precision Industry	2317 TT	84.50	41,334	9.8	9.3	1.2	1.1	12.8	12.6	0.2	0.2	5.8	5.1	4.5	4.3
Lenovo Group	992 HK	4.74	6,790	8.6	7.4	1.7	1.5	20.3	20.0	0.2	0.2	7.3	6.0	5.0	4.6
Aac Technologies	2018 HK	67.85	10,745	18.8	16.0	5.1	4.1	29.3	28.2	4.9	4.1	17.2	14.3	14.7	12.3
Catcher Technology	2474 TT	240.00	5,783	8.3	7.9	1.4	1.3	18.5	17.0	1.6	1.3	4.6	3.8	3.7	3.5
Sunny Optical Technology	2382 HK	29.00	4,103	25.3	19.9	5.8	4.7	25.3	26.5	2.0	1.7	21.7	16.5	17.6	14.0
Byd Electronic	285 HK	5.42	1,575	8.9	8.1	0.9	0.8	10.3	10.6	0.2	0.2	6.8	5.4	3.1	2.9
Tcl Communication Tech.	2618 HK	7.22	1,188	10.8	10.2	2.0	1.8	20.0	18.5	0.4	0.4	13.3	11.2	7.6	6.5
Truly International	732 HK	3.66	1,372	11.8	10.8	1.3	1.2	11.6	11.2	0.7	0.7	11.2	10.4	6.1	5.9
Mkt weighted avg.				**11.8**	**10.6**	**2.1**	**1.8**	**17.1**	**16.7**	**1.1**	**0.9**	**8.7**	**7.3**	**6.8**	**6.0**

Note: Prices as of 15th July 2016
Source: Bloomberg, Maybank Kim Eng

Rechargeable batteries and photovoltaic business valuation

We apply a 6.4x EV/EBITDA multiple to value BYD's rechargeable batteries and photovoltaic business. This is slightly higher than the long-term average for the global peers of 5.8x and also comparable to the other two key HK battery plays – Tianneng Power and Chaowei Power at 3.5x-5.5x.

Fig 59: Global battery peers mkt. cap. weighted avg. EV/EBITDA chart



Source: Bloomberg, Maybank Kim Eng

Fig 60: Valuation comparison of battery peers

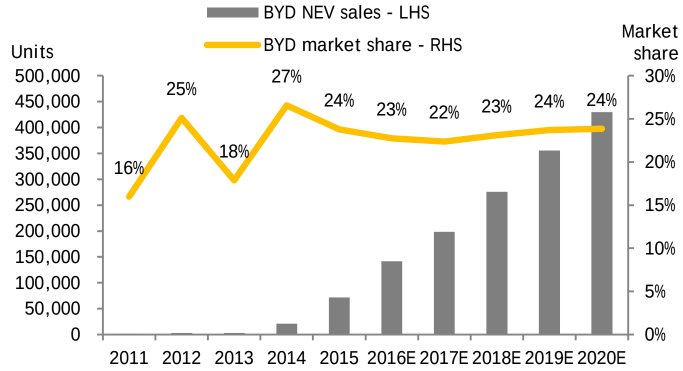
		Price	Mkt cap	PE		PB		RoE		EV/Sales		EV/EBIT		EV/EBITDA	
Name	**Code**	**(lcy)**	**(USDm)**	**2016E**	**2017E**	**2016E**	**2017E**	**2016E**	**2017E**	**2016E**	**2017E**	**2016E**	**2017E**	**2016E**	**2017E**
Battery peers															
Panasonic Corp	6752 JP	986.30	23,077	14.1	11.3	1.2	1.1	8.6	10.0	0.3	0.3	6.7	5.5	3.7	3.3
Lg Chem Ltd	051910 KS	258,000.00	15,005	12.2	10.9	1.3	1.2	10.9	11.1	0.8	0.7	8.4	7.3	5.2	4.8
Samsung Sdi	006400 KS	108,500.00	6,548	26.4	24.1	0.7	0.7	1.7	2.8	1.1	1.0	(9.9)	41.3	n.a.	7.7
Guoxuan High-Tech	002074 CH	41.60	5,447	30.3	23.3	8.7	6.7	26.1	26.5	6.0	4.0	24.9	20.8	23.9	19.1
Hitachi Chemical	4217 JP	2,052.00	4,078	12.0	11.0	1.1	1.0	9.3	9.8	0.7	0.6	7.2	6.3	4.3	4.0
Gs Yuasa Corp	6674 JP	424.00	1,673	12.8	10.9	1.0	1.0	8.3	9.1	0.7	0.6	11.0	9.6	5.8	5.3
Tianneng Power Int.	819 HK	5.14	748	6.1	4.9	1.2	1.0	22.1	23.3	0.3	0.2	5.5	4.9	4.2	3.5
Chaowei Power	951 HK	4.85	641	8.6	7.1	1.5	1.3	15.3	16.5	0.3	0.3	7.2	6.6	6.2	5.5
Mkt weighted avg.				**16.2**	**13.6**	**1.9**	**1.6**	**10.4**	**11.2**	**1.1**	**0.9**	**7.1**	**11.7**	**6.5**	**5.8**

Note: Prices as of 15th July 2016
Source: Bloomberg, Maybank Kim Eng

Company Proposition

- BYD is a vertically integrated manufacturer of low-cost automobiles (including EVs) and rechargeable batteries.
- NEV sales accounted for 24% of the total China market in 2015, and an 80% share in hybrid electric vehicles.
- China's NEV market is set to take off due to gov't support. NEV population should jump from 451k to 3.1m from 2015-18F. BYD is at the forefront of a big secular cycle.
- However, RoIC remains at depressed levels and could be further threatened by competition.

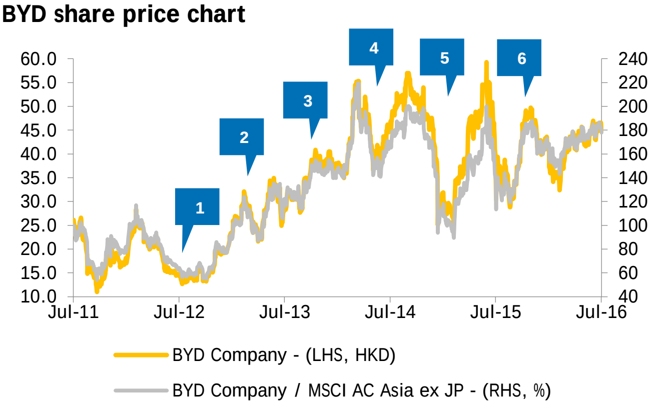
China targets 5m NEVs on the road by 2020



Source: Company

Price Drivers

BYD share price chart



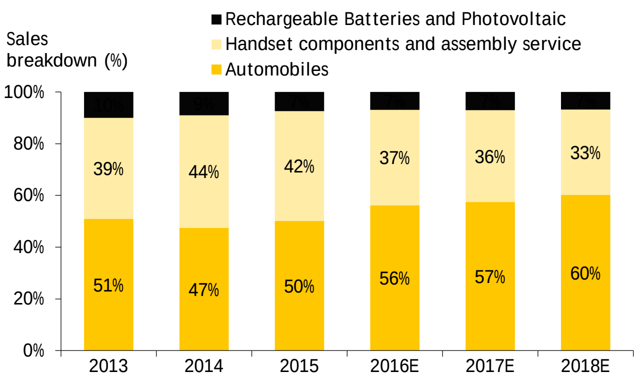
Source: Company, Maybank Kim Eng

1. State Council set the national NEV penetration target for 2015-20.
2. China did not renew the NEV subsidy after they expired in Dec 12.
3. In Sep 13, Beijing renewed the subsidy programme.
4. H-share placement.
5. Speculation of Warren Buffett reducing his holding.
6. China cuts purchase tax rate on small cars, while BYD NEV posted strong sales growth.

Financial Metrics

- Automobile business, especially NEV sales, will be the key earnings driver. Vehicle contribution will jump from 50% in 2015 to 60% of group sales by 2018E.
- We expect core earnings to grow at a 66% CAGR over 2015-18E on the back of: 1) sales expansion; and 2) margin improvement.
- BYD is trading at 27.8x and 12.3x FY16 PER and EV/EBITDA, much higher than its auto and renewable peers.
- BYD will raise CNY15b via an A-share private placement to fund its battery expansion, after which its net gearing ratio should decrease to 42% in 2016E from 96% in 2015.

BYD sales breakdown



Source: Company

Swing Factors

Upside

- Ramping up battery capacity faster than expected to fulfil strong NEV orders.
- BYD is streamlining its core operations – rechargeable batteries and automobiles. Disposing of the low-margin mobile components and assembly service business is a key positive for the group.

Downside

- Scale benefit and battery cost reduction unable to offset the reduction of government subsidies.
- Rising competition in the PHEV segment a key risk.
- BYD may not be able to fund its battery expansion project given its high gearing if it is not able to complete the A-share private placement.

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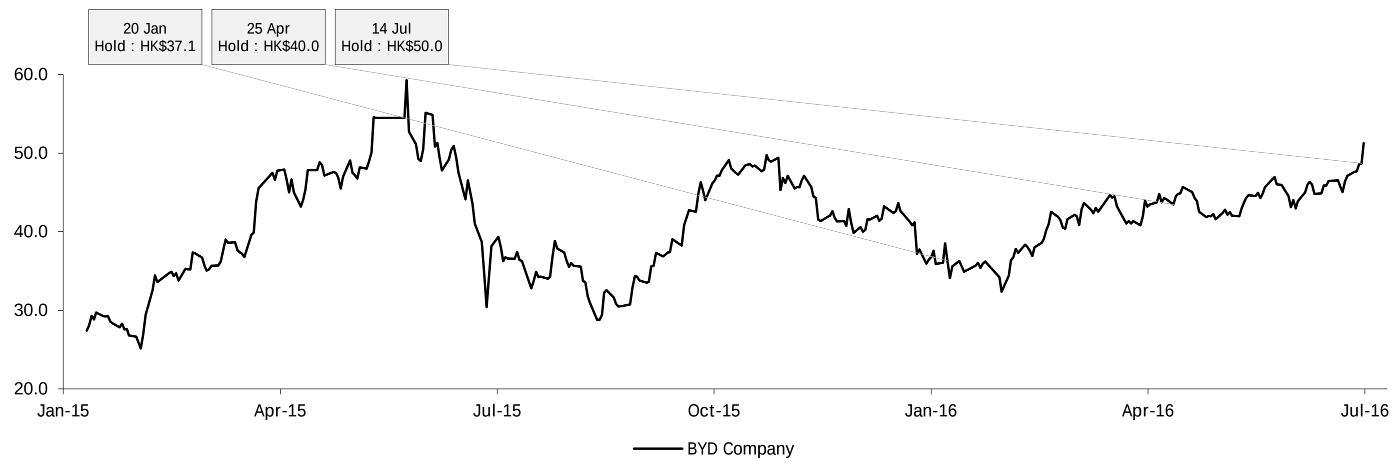
FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
Key Metrics					
P/E (reported) (x)	nm	38.7	27.8	25.0	19.1
Core P/E (x)	252.2	38.7	27.8	25.0	19.1
P/BV (x)	4.3	3.4	2.5	2.2	2.0
P/NTA (x)	3.8	3.0	2.3	2.0	1.8
Net dividend yield (%)	0.0	0.0	0.7	0.8	1.0
FCF yield (%)	nm	nm	nm	1.4	0.5
EV/EBITDA (x)	20.7	16.8	12.3	11.0	9.4
EV/EBIT (x)	nm	42.9	24.0	21.4	17.5
INCOME STATEMENT (CNY m)					
Revenue	55,366	77,612	97,845	108,388	124,288
Gross profit	7,623	11,859	18,362	20,107	23,830
EBITDA	4,522	7,621	12,286	13,570	15,926
Depreciation	(3,704)	(4,486)	(4,988)	(5,432)	(6,072)
Amortisation	(146)	(153)	(1,021)	(1,165)	(1,309)
EBIT	672	2,982	6,277	6,973	8,545
Net interest income /(exp)	(1,292)	(1,464)	(1,503)	(1,459)	(1,206)
Associates & JV	(122)	(243)	(267)	(280)	(294)
Exceptionals	0	0	0	0	0
Other pretax income	1,616	2,519	1,379	1,318	1,548
Pretax profit	874	3,795	5,886	6,552	8,592
Income tax	(134)	(657)	(1,059)	(1,179)	(1,547)
Minorities	(306)	(315)	(483)	(537)	(705)
Perpetual securities	0	0	0	0	0
Discontinued operations	0	0	0	0	0
Reported net profit	434	2,823	4,344	4,835	6,341
Core net profit	434	2,823	4,344	4,835	6,341
BALANCE SHEET (CNY m)					
Cash & Short Term Investments	4,453	6,596	9,570	5,273	4,080
Accounts receivable	25,358	29,959	41,551	46,028	52,780
Inventory	9,978	15,751	19,598	22,010	25,871
Property, Plant & Equip (net)	36,379	38,126	39,139	41,706	44,634
Intangible assets	6,373	7,169	7,747	8,182	8,473
Investment in Associates & JVs	1,414	1,889	1,622	1,341	1,047
Other assets	10,053	15,996	16,751	17,559	18,426
Total assets	**94,009**	**115,486**	**135,977**	**142,100**	**155,311**
ST interest bearing debt	19,173	26,413	21,130	16,904	13,523
Accounts payable	33,066	37,651	47,907	54,420	61,926
Insurance contract liabilities	0	0	0	0	0
LT interest bearing debt	10,979	11,230	8,984	7,187	8,625
Other liabilities	1,896	4,163	4,431	4,594	4,895
Total Liabilities	**65,114**	**79,457**	**82,453**	**83,105**	**88,969**
Shareholders Equity	25,366	32,294	49,307	54,240	60,883
Minority Interest	3,529	3,735	4,217	4,755	5,459
Total shareholder equity	**28,894**	**36,029**	**53,525**	**58,995**	**66,342**
Perpetual securities	0	0	0	0	0
Total liabilities and equity	**94,009**	**115,486**	**135,977**	**142,100**	**155,311**
CASH FLOW (CNY m)					
Pretax profit	874	3,795	5,886	6,552	8,592
Depreciation & amortisation	3,850	4,639	6,009	6,597	7,381
Adj net interest (income)/exp	(1,292)	(1,464)	(1,503)	(1,459)	(1,206)
Change in working capital	(5,094)	(5,840)	(5,157)	(485)	(3,175)
Cash taxes paid	(157)	(510)	(1,031)	(1,143)	(1,436)
Other operating cash flow	2,059	4,035	1,379	1,318	1,548
Cash flow from operations	38	3,842	5,974	11,801	11,657
Capex	(8,589)	(9,650)	(8,033)	(10,054)	(11,077)
Free cash flow	(8,551)	(5,808)	(2,059)	1,747	580
Dividends paid	0	0	0	0	0
Equity raised / (purchased)	122	0	15,000	0	0
Perpetual securities	0	0	0	0	0
Change in Debt	5,328	7,491	(10,729)	(6,023)	(1,943)
Perpetual securities distribution	0	0	0	0	0
Other invest/financing cash flow	2,510	173	673	(122)	54
Effect of exch rate changes	31	205	0	0	0
Net cash flow	(561)	2,061	2,886	(4,398)	(1,309)

FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
Key Ratios					
Growth ratios (%)					
Revenue growth	11.2	40.2	26.1	10.8	14.7
EBITDA growth	9.8	68.5	61.2	10.5	17.4
EBIT growth	(12.1)	343.7	110.5	11.1	22.5
Pretax growth	5.0	334.2	55.1	11.3	31.2
Reported net profit growth	(21.6)	551.3	53.8	11.3	31.2
Core net profit growth	(21.6)	551.3	53.8	11.3	31.2
Profitability ratios (%)					
EBITDA margin	8.2	9.8	12.6	12.5	12.8
EBIT margin	1.2	3.8	6.4	6.4	6.9
Pretax profit margin	1.6	4.9	6.0	6.0	6.9
Payout ratio	0.0	0.0	20.0	20.0	20.0
DuPont analysis					
Net profit margin (%)	0.8	3.6	4.4	4.5	5.1
Revenue/Assets (x)	0.6	0.7	0.7	0.8	0.8
Assets/Equity (x)	3.7	3.6	2.8	2.6	2.6
ROAE (%)	1.8	9.8	10.6	9.3	11.0
ROAA (%)	0.5	2.7	3.5	3.5	4.3
Liquidity & Efficiency					
Cash conversion cycle	(23.0)	5.1	17.8	21.6	20.4
Days receivable outstanding	133.0	128.3	131.6	145.4	143.1
Days inventory outstanding	68.6	70.4	80.1	84.8	85.8
Days payables outstanding	224.6	193.6	193.8	208.6	208.5
Dividend cover (x)	nm	nm	5.0	5.0	5.0
Current ratio (x)	0.8	0.8	1.0	1.0	1.1
Leverage & Expense Analysis					
Asset/Liability (x)	1.4	1.5	1.6	1.7	1.7
Net debt/equity (%)	101.3	96.1	41.7	34.7	29.7
Net interest cover (x)	0.5	2.0	4.2	4.8	7.1
Debt/EBITDA (x)	6.7	4.9	2.5	1.8	1.4
Capex/revenue (%)	15.5	12.4	8.2	9.3	8.9
Net debt/ (net cash)	25,698.8	31,046.3	20,544.4	18,818.1	18,068.0

Source: Company; Maybank

Historical recommendations and target price: BYD Company (1211 HK)



July 18, 2016

FDG Electric Vehicles (729 HK)

The last mile

HOLD

Share Price	HKD 0.42
12m Price Target	HKD 0.45 (+8%)
Previous Price Target	*HKD 0.45*

Automotive

China

Time to monetize years of R&D effort

The coming 12 months will be critical for FDG, a NEV producer with in-house battery production capability, to monetize years of R&D and investments. It commenced NEV production and started shipping mini-buses and large buses to customers last year. It has had a good start as it has a few hundred units order on hand but a sizable order would be a positive catalyst. Furthermore, given its design capability and strength in battery technology, we believe its products that achieve an Ekg of below 0.25 will enable it to remain competitive in the market. Key risks include subsidy reduction and weaker-than-expected orders. Maintain HOLD with a DCF-based TP of HKD0.45 (WACC of 9.6% and terminal growth of 2%).

Vertically integrated strategy

With nearly 200 units of large eBus orders on hand, FDG targets to ship a total of 500-1,000 units this year (our est. 240 units) and 5,000 mini-buses (our est. 2k units). Mini-bus is the key driver and we estimate FDG may break even if mini-bus shipments reach ~5k units assuming stable SG&A and no subsidy policy changes. Besides the Guian (PV) plant, the Hangzhou (mini-bus and PV) and Kunming (eBus) plants have also commenced operations. Capex will start to fall as the company focuses on battery technology development. FDG formed a strategic partnership with ALEEES, one of its LFP battery cathode material suppliers, to achieve better cost control of raw materials used for LFP production. In addition, it acquired SK (Chongqing) Lithium Ion Battery Materials, to expand into NCM lithium-ion battery. We remain confident on its products with Ekg below 0.25 as these are eligible to the maximum amount of government subsidies.

FY16 results a non-event

FY16 results were unexciting and it remained loss making. Of particular note is the rise in expenses in the past 12-18 months as it ramped up its Hangzhou production facility. Pre-tax losses widen to HKD889m in FY16 mainly due to rising interest expenses and overheads for the new plant.

Maintain HOLD

Given FDG's sporadic revenue stream and financial position in the near term, we believe cash flow should be the principal valuation metric, therefore we use a DCF valuation to generate our target price.

FYE Mar (HKD m)	FY15A	FY16A	FY17E	FY18E	FY19E
Revenue	304	363	1,467	3,331	5,607
EBITDA	(285)	(324)	(1,758)	(2,024)	(2,570)
Core net profit	(414)	(228)	(1,114)	(232)	737
Core EPS (HKD)	(0.02)	(0.01)	(0.05)	(0.01)	0.03
Core EPS growth (%)	nm	nm	nm	nm	nm
Net DPS (HKD)	0.00	0.00	0.00	0.00	0.00
Core P/E (x)	nm	nm	nm	nm	12.1
P/BV (x)	3.6	2.7	4.0	4.4	3.2
Net dividend yield (%)	0.0	0.0	0.0	0.0	0.0
ROAE (%)	(21.7)	(8.4)	(39.7)	(10.9)	30.9
ROAA (%)	(8.4)	(3.1)	(12.8)	(2.5)	7.0
EV/EBITDA (x)	nm	nm	nm	nm	nm
Net debt/equity (%)	115.2	67.8	151.8	216.0	153.8
Consensus net profit	-	-	(1,247)	(366)	na
MKE vs. Consensus (%)	-	-	10.6	36.7	na

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Company Description

FDG Electric Vehicles engages in the manufacturing and sales of Lithium-ion batteries and electric vehicles.

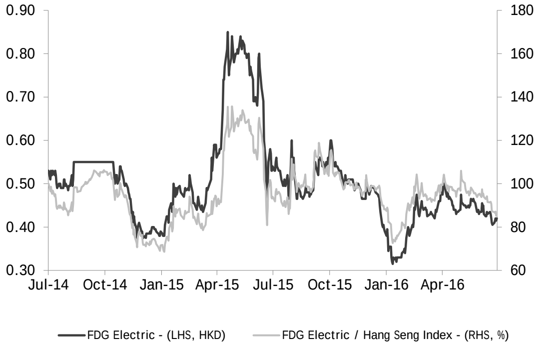
Statistics

52w high/low (HKD)	0.60/0.32
3m avg turnover (USDm)	2.5
Free float (%)	61.6
Issued shares (m)	21,241
Market capitalisation	HKD8.9B
	USD1.2B

Major shareholders:

CAO ZHONG	12.0%
MIAO ZHEN GUO	10.2%
CHEN JIAN /HK/	4.6%

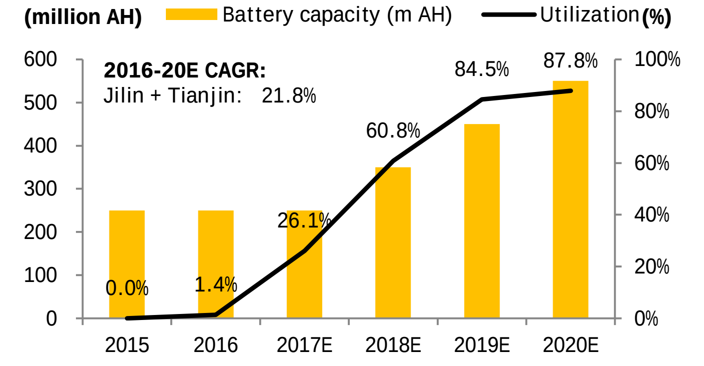
Price Performance



	-1M	-3M	-12M
Absolute (%)	(5)	(13)	(21)
Relative to index (%)	(10)	(14)	(8)

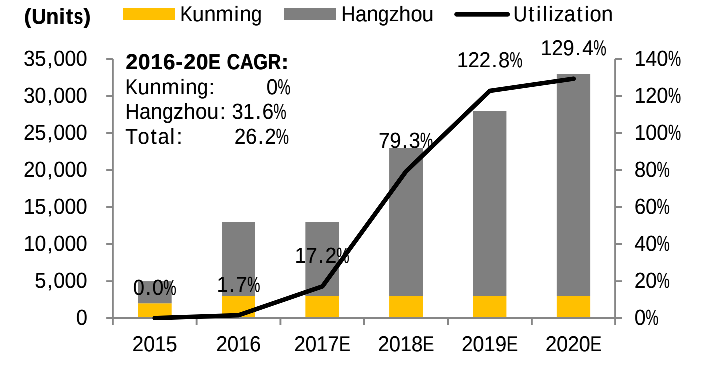
Source: FactSet

Fig 61: FDG's battery capacity to increase to cater to its EV manufacturing business



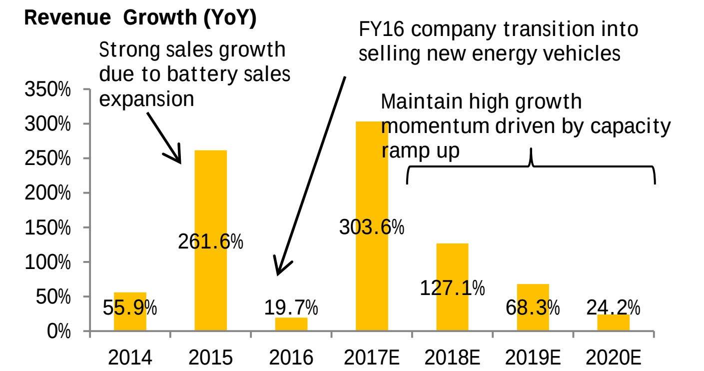
Source: Company, Maybank Kim Eng

Fig 62: EV manufacturing capacity to ramp up quickly as orders start to accelerate from FY17E



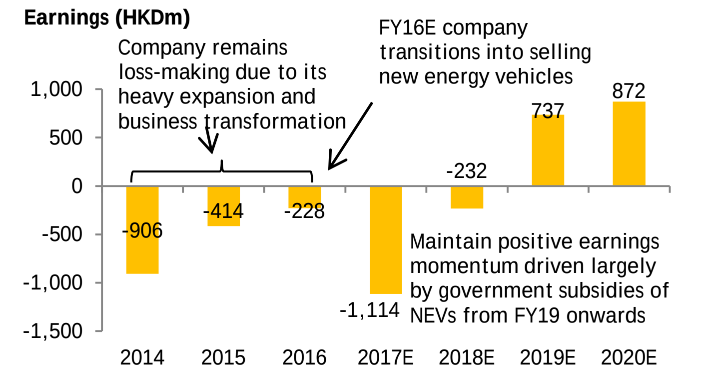
Source: Company, Maybank Kim Eng

Fig 63: Sales to surge from FY17E onwards as the company begins to commercialize its e-buses



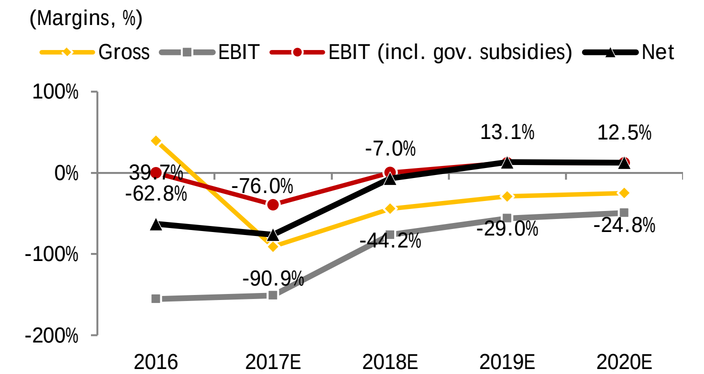
Source: Company, Maybank Kim Eng

Fig 64: We expect FDG to report a profit from FY19 onwards, driven by its transformation into selling NEVs and government subsidies



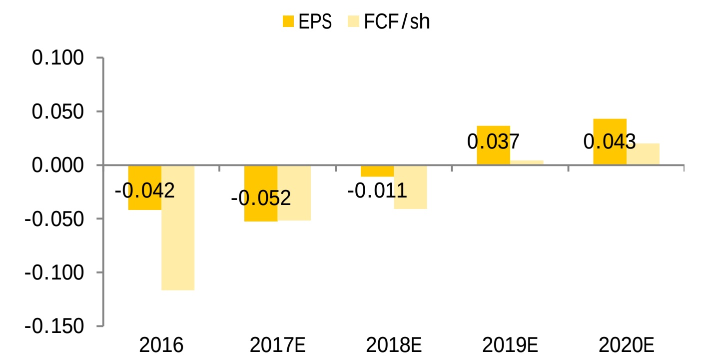
Source: Company, Maybank Kim Eng

Fig 65: Margins to see upward momentum as production scale kicks in from FY17E



Source: Company, Maybank Kim Eng

Fig 66: We expect FDG to break even in FY19E



Source: Company, Maybank Kim Eng

Earnings forecasts

We kept our earnings forecasts largely unchanged and don't expect the company to break even until 2019. We expect FDG to ship 2,000 and 240 mini-buses and large buses in 2017, and 3,000 units and 480 units in 2018, respectively. We believe public bus operators and local governments in Kunming, Tianjin, Hangzhou and Guizhou are its key potential customers as FDG has production facilities in those cities.

Capex is expected to fall from over CNY1.6b in FY16 to CNY720m in FY17E as construction of all its production plants is completed. We maintain the forecast that the company will turn to positive free cash flow in 2019 when sales volume reaches 5,000 units.

Key risks include subsidy reduction, weaker-than-expected orders, and more equity fund raising.

Fig 67: NEV targets and policy summary in Kunming, Tianjin, Hangzhou and Guizhou, where FDG has production plants

City	NEV target
Kunming 昆明	▪ Target to procure at least **600 eBus in 2016** ▪ The whole province of Yunnan has just 4,748 NEVs in operation
Tianjin 天津	▪ Tianjin Binhai New Area to **buy another 100 eBus in 2016** (pure electric: 50 units, Hybrid: 20 units, LNG: 30 units) ▪ Tianjin has a total of 13,700 NEVs (bus: 2,100 units) ▪ 10 li-ion battery producers and over CNY20m sales related to NEVs. ▪ Postal delivery vehicles are an opportunity for growth as well; Tianjin's NEV postal fleet accounts for 59% of China's total
Hangzhou 杭州	▪ **All 6,086 of Hangzhou's buses will use new energy by the end of the year**. Total of 22,131 NEVs in Hangzhou, plans to add 7,500 more units ▪ G20 in Hangzhou this year could spur additional NEV infrastructure-related purchases ▪ Multiple new grants and subsidy programmes for both corporations and private citizens continued from previous year. Private citizens subsidies of up to CNY30,000 ▪ NEVs will be exempt from traffic restriction measures ▪ 20% subsidies for building charging stations
Guizhou 貴州	▪ Plans to spend CNY2b on 3,000 more charging terminals and 30 charging stations for NEVs ▪ NEVs exempt from parking fees. ▪ Similar subsidies for NEVs as other cities with CNY30,000-45,000 subsidies from the state but also local CNY15,000 subsidies ▪ Guiyang transitioned to clean energy (natural gas) in 2013

Source: Local media; Maybank Kim Eng

Valuation

DCF

We derived our fair value using a DCF valuation of HKD0.45 per share, representing 8% upside. Our assumption for the DCF valuation includes a WACC of 9.6%, beta of 0.90, average risk-free rate of 2.9%, market risk-premium of 10.0%, and terminal growth rate of 2.0%. We derive a WACC of 9.6% based on the stated assumptions. Due to FDG's accounting methodology, government subsidies will be booked under other income, below the operating line.

Fig 68: DCF valuation

Discounted cash flow (HKDm) March yr-end	**2016**	**2017E**	**2018E**	**2019E**	**2020E**	**2021E**	**2022E**	**2023E**	**2024E**	**2025E**	**2026E**	**2027E**
EBIT	-564	-2,213	-2,537	-3,136	-3,427	-2,672	-1,811	-963	-274	197	373	740
Depr'n & amort'n	240	455	513	566	621	667	707	743	772	796	811	820
Change in working capital	-254	278	-251	-389	-212	-239	-261	-281	-296	-307	-311	-310
Others (gov.'t subsidies)	-32	1,177	2,557	4,376	4,867	5,598	5,015	4,138	3,352	2,664	2,078	1,590
Tax paid	1	139	47	-136	-216	-489	-551	-546	-583	-592	-532	-502
Net interest expense	-281	-216	-280	-305	-293	-480	-448	-444	-426	-395	-235	-240
Operating cashflow	-890	-380	48	975	1,340	2,385	2,651	2,647	2,544	2,364	2,185	2,098
Capex / investment CF	-1,586	-720	-917	-880	-913	-721	-673	-641	-586	-565	-529	-479
Free cash flow	-2,476	-1,100	-868	95	427	1,664	1,978	2,005	1,958	1,799	1,656	1,619
Discounted cash flow		-1,004	-723	72	296	1,053	1,142	1,057	941	789	663	592
Terminal cash flow											21,343	
PV of terminal cash flow											8,545	
Total discount cash flow											12,832	
Net debt											3,180	
No. of share											21,241	
DCF value per share (HKD)											**0.45**	
Current price (HKD)											0.42	
Upside/(downside) (%)											8%	

Source: Company, Maybank Kim Eng

Peer comparison

Fig 69: Pure bus manufacturers - peer comparison

Company	**Ticker**	**Rating**	**Price (lcy)**	**Target Price**	**Market Cap (USDm)**	**3m ADTV (USDm)**	**PE FY16F (x)**	**PE FY17F (x)**	**P/B FY16F (x)**	**P/B FY17F (x)**	**ROE FY16F (%)**	**ROE FY17F (%)**	**EV/EBITDA FY16F (x)**	**EV/EBITDA FY17F (x)**	**FY15-17F CAGR EPS (%)**	**PEG FY16F (x)**
Bus manufacturers																
FDG Electric Vehicles	729 HK	Hold	0.42	0.45	1,190	2.6	n.a.	n.a.	2.7	4.0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Zhengzhou Yutong Bus	600066 CH	Buy	21.88	26.00	7,238	40.4	11.8	10.7	3.3	3.0	30.1	29.5	7.7	6.8	8.7	1.4
Dongfeng Automobile	600006 CH	N.R	8.57	N.R	2,561	50.5	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Xiamen King Long Motor	600686 CH	N.R	14.70	N.R	1,333	28.1	13.8	10.7	2.3	2.5	17.2	19.8	10.5	8.4	n.a.	n.a.
Zhongtong Bus	000957 CH	N.R	41.62	N.R	1,844	84.1	24.6	14.2	n.a.	n.a.	24.3	24.7	n.a.	n.a.	32.4	0.8
China Dynamics	476 HK	N.R	0.28	N.R	131	0.4	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Market-weighted avg.						**43.2**	**14.3**	**11.3**	**3.1**	**3.0**	**27.4**	**27.4**	**8.1**	**7.1**	**13.5**	**1.2**

Note: Prices as of 15th July 2016

Source: Bloomberg, Maybank Kim Eng

Key takeaways from management meeting:

Battery products business

- FDG's FY16 revenue was driven by its non-EV segment, mainly battery sales. It stopped shipment to its EV competitor, Kandi and it's focusing on telco and power storage customers. FDG plans to keep around 20% of its battery sales to external customers in order to remain competitive in the market.
- Battery production in 2016 (Mar Yr End) reached 70-80m Ah (or 0.272Gwh) and utilization rate was at around 80% (or 40% if accounting for all types of battery production).
- FDG's Tianjin plant will expand capacity in four phases over an undisclosed period of time. The first phase will commence operations in 1Q17, in which management expects its automation level to be similar to international peers.
- FDG's current battery capacity is 0.85GWh. The figure will expand to around 1.35GWh next year, with a long term target of 3GWh.
- The battery production cost is around RMB1.5/wh (or HKD1.8/wh) and ASP is RMB3.25/wh (or HKD3.9/wh).
- Management believes the current battery demand in China is very strong and higher than supply. The situation is likely to improve but it's unlikely to experience overcapacity in 2017.

EV manufacturing business

- As per management, all models that FDG has to offer (SUV, minibus and large bus) are already on the approved list and are eligible for government subsidies.
- Management reiterated that while it does have orders in place, they cautioned that orders are not consistent enough and can vary from month to month due to industry uncertainties, such as policies on government subsidies, and the enforcement of the fake subsidy claims scandal (騙補).
- Management targets around 500-1000 units for large bus orders for FY17; the company currently has 100-200 units orders on hand from customers in Hangzhou and Guian.
- With an MSRP of CNY2m, the large bus can command gross margin of around CNY500k, with the possibility of further expansion driven by 20-30% cut in production cost when scale benefits start to kick in.
- The company has 1,000 units of minibuses order on hand; with 200 units coming from Guian and 300 units from Hangzhou. Management targets to produce 5,000 units in FY17.
- FDG is targeting 10,000 orders for its SUV EV. Sales of its PV will be implemented via B2C sales model, and therefore will require initial overheads necessary for branding and marketing.
- Management understands the need for a strong distribution network in order for its PV EV segment to be successful, and is therefore hopeful to put it through all of DCH's (1828 HK | NR) points of sales, and also leverage on their ability to break into international markets.
- It aims to distribute its PVs through a direct sales model, and also via online platforms.

Operational, D&A expenses

- FDG's Long River brand has yet to implement any advertising and promotional activities as: 1) sales are still being done via a B2B model and; 2) its SUV PV has yet to be rolled out; the company expects to introduce it in 4Q16.
- General and administrative expenses would gradually fall as a % of total revenue when sales of its EV business gradually picks up in FY17.
- Finance cost will remain stable due to the company's CB and bank borrowings needed to fund its EV manufacturing ramp up.
- Management commented that amortization increased, and will continue due to increased patents.

Balance sheet and capex

- Capex was CNY1.6b in FY16, which was mainly used for its new EV manufacturing facility and office buildings in Hangzhou. Management does not usually guide for forward capex, but stated that its Hangzhou facility is already fully operational and that capex going forward would mainly be used for its battery plant expansion in Tianjin.
- As mentioned, the Tianjin plant will expand its capacity over four phases, with phase one set to commence in 1Q17. The planned expansion will need capex of ~CNY1.5b, or CNY300-400m per phase.
- Furthermore, its JV with the Guian government is budgeted at CNY5b, with planned capex of CNY2.5b, in which FDG will pay CNY1.25b due to the nature of the JV.

FY16 (Mar year-end) results review

Revenue

- Sales grew 19.7% YoY, driven largely by the sales of batteries to external customers. If including inter-segment sales (sales of battery production to its EV manufacturing business), total revenue rose 125% YoY to HKD702m. The large contribution of inter-segment sales was due to the increase in demand of lithium batteries that will be used for its EV production.
- Revenue generated from the EV segment remains insignificant, at just HKD11m (3.1% of total sales).

Gross margin

- Gross profit surged to HKD144m, up 105% YoY in FY16. Gross margin rose 16.5ppt to 39.7% during the period due to the increase in production volume of battery products, resulting from improved economies of scale. A higher level of automation was achieved last year as more motive battery for BEVs was produced.

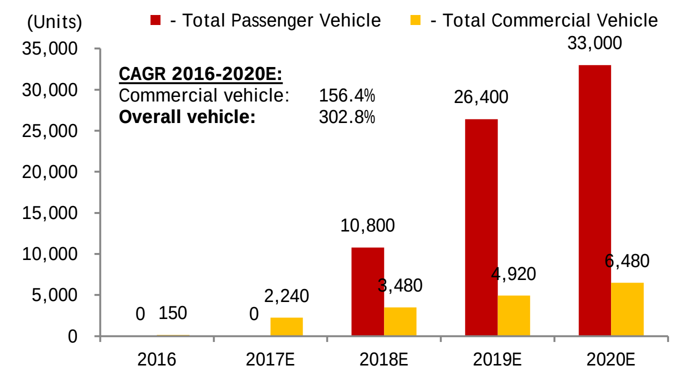
Net earnings

- FY16 results were unexciting and it remained loss making. Of particular note was the rise in expenses in the past 12-18 months was due to the Hangzhou production plant ramp up. Pre-tax losses widened to HKD889m in FY16 mainly due to rising interest expenses and overheads for the new production plant. Excluding the acquisition loss shared by the non-controlling interests, its net losses narrowed to HKD228m (vs. losses of HKD414m in FY15).

Company Proposition

- FDG is transitioning from a battery maker into an integrated electric vehicle (EV) manufacturer, specializing in mid and large-sized buses.
- At start-up stage, FDG has limited but strong product line-up. Unlike conventional makers, vehicles are designed as EVs from scratch, thus achieve superior energy efficiency.
- Three to six months away from official commercialization. China Eastern Airline and Kunming Public Transportation are early anchor clients.
- Returns and OCF will be negative for a few more years. Capex and WC will be funded by capital raising until FY18.
- Long term, FDG offers the most promising exposure among the Chinese EV companies, but at high risk.

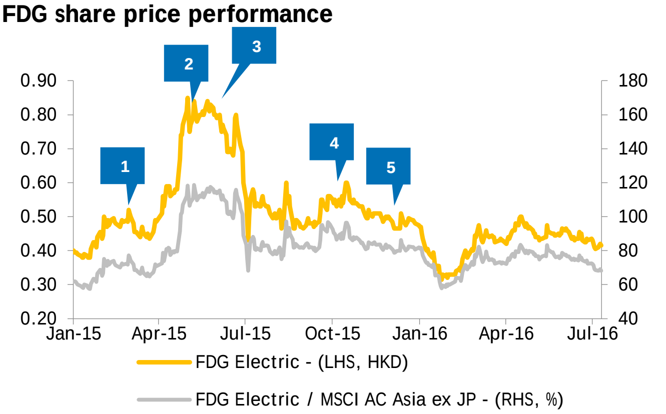
FDG to start selling vehicles from FY16 onwards



Source: Company, Maybank Kim Eng

Price Drivers

FDG share price performance



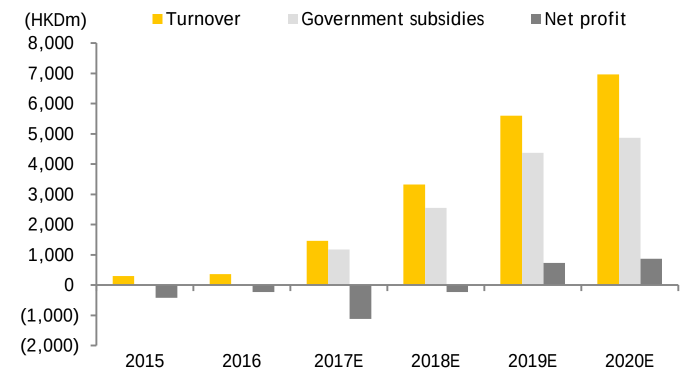
Source: Company, Maybank Kim Eng

1. Company signed cooperation with Kunming Bus, in which the city's public bus fleet will be replaced with FDG's e-buses.
2. FDG and SEV form a JV to be principally engaged in the EV business.
3. FDG set up an agreement with China Eastern Airlines.
4. Company issues 1b new shares to six individual investors by placement.
5. Company proposed to issue 1b new shares to CITIC Int'l AM.

Financial Metrics

- FDG is at the 'cash crunch' phase. With CNY1.9b of capital expenditure commitments.
- EBIT will be negative until after 2020E. Expect another 2-3 years of negative free cash flow, until FDG reaches 123% utilisation in 2019.
- Earnings/ cash flow are initially uplifted by government subsidies, but such subsidies are scheduled to shrink, accounting for up to 5.6 times of 2020E earnings.

Earnings driven largely by government subsidies of NEVs



Source: Company

Swing Factors

Upside

- Additional government or large scale institutional contracts will be a major positive.
- Confirm eligibility of higher subsidy due to its superior energy efficiency.
- Further government policies supporting the development of the electric vehicle industry.

Downside

- Operational incident, such as mechanical failure, battery malfunction, or regulatory issues.
- Smaller-than-expected orders from government institutions, and further delay in receiving orders from potential new customers.
- Faster or larger than expected cut back in central or provincial government subsidy per vehicle.
- Further share dilution for fund raising purposes.

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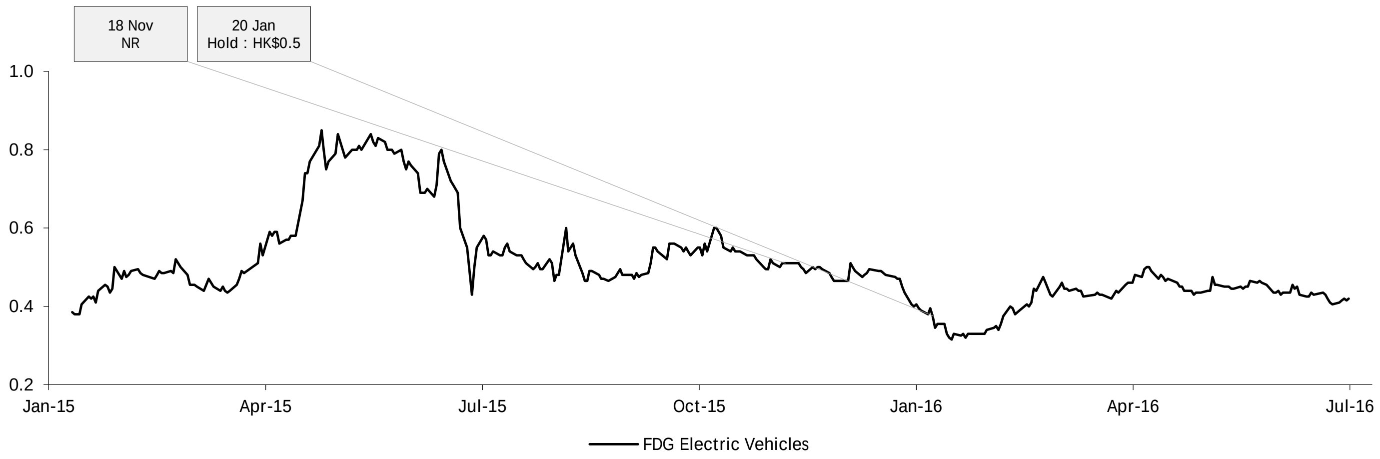
FYE 31 Mar	FY15A	FY16A	FY17E	FY18E	FY19E
Key Metrics					
P/E (reported) (x)	(18.1)	(39.1)	(8.0)	(38.5)	12.1
Core P/E (x)	(18.1)	(39.1)	(8.0)	(38.5)	12.1
P/BV (x)	3.6	2.7	4.0	4.4	3.2
P/NTA (x)	3.2	2.2	3.0	3.2	2.5
Net dividend yield (%)	0.0	0.0	0.0	0.0	0.0
FCF yield (%)	nm	nm	nm	nm	1.1
EV/EBITDA (x)	nm	nm	nm	nm	nm
EV/EBIT (x)	nm	nm	nm	nm	nm
INCOME STATEMENT (HKD m)					
Revenue	304	363	1,467	3,331	5,607
Gross profit	70	144	(1,333)	(1,472)	(1,625)
EBITDA	(285)	(324)	(1,758)	(2,024)	(2,570)
Depreciation	(62)	(69)	(275)	(324)	(366)
Amortisation	(119)	(171)	(180)	(189)	(200)
EBIT	(466)	(564)	(2,213)	(2,537)	(3,136)
Net interest income /(exp)	(115)	(281)	(216)	(280)	(305)
Associates & JV	(0)	(11)	0	0	0
Exceptionals	0	0	0	0	0
Other pretax income	11	(32)	1,177	2,557	4,376
Pretax profit	(571)	(889)	(1,252)	(260)	934
Income tax	58	1	138	29	(159)
Minorities	99	660	0	0	(39)
Discontinued operations	0	0	0	0	0
Reported net profit	(414)	(228)	(1,114)	(232)	737
Core net profit	(414)	(228)	(1,114)	(232)	737
BALANCE SHEET (HKD m)					
Cash & Short Term Investments	411	942	1,030	1,028	1,047
Accounts receivable	547	783	602	1,013	1,536
Inventory	193	613	460	790	1,189
Property, Plant & Equip (net)	2,219	3,196	3,421	3,797	4,031
Intangible assets	1,804	2,174	2,214	2,241	2,321
Investment in Associates & JVs	108	346	346	346	346
Other assets	742	635	670	744	720
Total assets	**6,024**	**8,689**	**8,743**	**9,958**	**11,190**
ST interest bearing debt	1,641	1,863	2,063	1,502	1,602
Accounts payable	632	1,015	959	1,448	1,981
LT interest bearing debt	1,156	1,357	2,381	3,881	3,681
Other liabilities	281	362	363	382	405
Total Liabilities	**3,710**	**4,597**	**5,766**	**7,212**	**7,669**
Shareholders Equity	2,071	3,363	2,248	2,016	2,753
Minority Interest	243	729	729	729	768
Total shareholder equity	**2,314**	**4,092**	**2,977**	**2,746**	**3,521**
Total liabilities and equity	**6,024**	**8,689**	**8,743**	**9,958**	**11,190**
CASH FLOW (HKD m)					
Pretax profit	(571)	(889)	(1,252)	(260)	934
Depreciation & amortisation	182	240	455	513	566
Adj net interest (income)/exp	(115)	(281)	(216)	(280)	(305)
Change in working capital	2	(254)	278	(251)	(389)
Cash taxes paid	62	1	139	47	(136)
Other operating cash flow	106	(32)	1,177	2,557	4,376
Cash flow from operations	(174)	(890)	(380)	48	975
Capex	(2,062)	(1,586)	(720)	(917)	(880)
Free cash flow	(2,236)	(2,476)	(1,100)	(868)	95
Dividends paid	0	0	0	0	0
Equity raised / (purchased)	9	1,177	0	0	0
Change in Debt	1,514	423	1,223	939	(100)
Other invest/financing cash flow	54	1,407	(35)	(73)	24
Effect of exch rate changes	0	0	0	0	0
Net cash flow	(658)	531	88	(2)	19

FYE 31 Mar	FY15A	FY16A	FY17E	FY18E	FY19E
Key Ratios					
Growth ratios (%)					
Revenue growth	261.6	19.7	303.6	127.1	68.3
EBITDA growth	nm	nm	nm	nm	nm
EBIT growth	nm	nm	nm	nm	nm
Pretax growth	nm	nm	nm	nm	nm
Reported net profit growth	nm	nm	nm	nm	nm
Core net profit growth	nm	nm	nm	nm	nm
Profitability ratios (%)					
EBITDA margin	nm	nm	nm	nm	nm
EBIT margin	nm	nm	nm	nm	nm
Pretax profit margin	nm	nm	nm	nm	16.7
Payout ratio	0.0	0.0	0.0	0.0	0.0
DuPont analysis					
Net profit margin (%)	nm	nm	nm	nm	13.1
Revenue/Assets (x)	0.1	0.0	0.2	0.3	0.5
Assets/Equity (x)	2.9	2.6	3.9	4.9	4.1
ROAE (%)	(21.7)	(8.4)	(39.7)	(10.9)	30.9
ROAA (%)	(8.4)	(3.1)	(12.8)	(2.5)	7.0
Liquidity & Efficiency					
Cash conversion cycle	65.8	nm	112.0	43.9	45.7
Days receivable outstanding	474.5	658.8	169.9	87.2	81.8
Days inventory outstanding	244.1	nm	69.0	46.8	49.2
Days payables outstanding	652.7	nm	126.9	90.2	85.3
Dividend cover (x)	nm	nm	nm	nm	nm
Current ratio (x)	0.7	0.9	0.8	1.1	1.1
Leverage & Expense Analysis					
Asset/Liability (x)	1.6	1.9	1.5	1.4	1.5
Net debt/equity (%)	115.2	67.8	151.8	216.0	153.8
Net interest cover (x)	na	na	na	na	na
Debt/EBITDA (x)	nm	nm	nm	nm	nm
Capex/revenue (%)	nm	436.5	49.1	27.5	15.7
Net debt/ (net cash)	2,385.5	2,278.3	3,413.5	4,354.9	4,235.5

Source: Company; Maybank

Historical recommendations and target price: FDG Electric Vehicles (729 HK)



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