

Dragon Hill Wuling

Wed, 05 Aug 2009

1

Running minivan

Not Rated

Financial summary

Year to Dec	07A	08A	09F	10F	11F
Turnover (RMBm)	2,856	7,112	8,531	10,189	10,863
Net Profit (RMBm)	11.1	32.6	74.8	104.0	111.4
EPS (RMB)	0.013	0.036	0.082	0.113	0.121
EPS Δ%	n.a.	182.5	128.9	39.1	7.1
P/E (x)	63.9	22.6	9.9	7.1	6.6
P/B (x)	0.99	5.03	3.33	2.27	1.69
EV/EBITDA (x)	2.8	1.2	0.8	0.7	0.7
Yield (%)	1.5	0.0	0.0	0.0	0.0
ROE (%)	20.5	25.6	40.6	38.0	29.2
ROCE (%)	28.3	22.7	28.1	25.7	22.5
N. Gear. (%)	cash	cash	cash	cash	cash

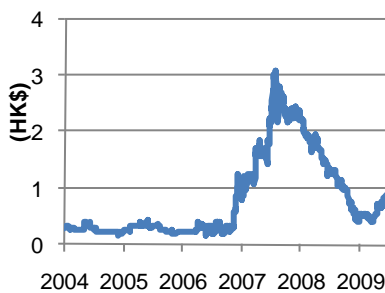
Source: SBI E2-Capital

Price Performance

	1 mth	3 mth	12 mth
Relative to HSI (%)	-31.9	+3.9	-25.4
Actual price changes (%)	-23.3	+29.6	-30.3

	09F	10F	11F
Consensus EPS (RMB)	n.a.	n.a.	n.a.
Previous forecasts (RMBm)	n.a.	n.a.	n.a.
Previous EPS (RMB)	n.a.	n.a.	n.a.

Price Chart



Norman Zhang

(852) 2533 3715

normanzhang@sbie2capital.com

Ticker: 0305.HK	12 mth range: HK\$0.35-1.36
Price: HK\$0.91	Market cap: US\$108.2m
Target: n.a.	Daily t/o, 3 mth: <US\$0.1m
	Free float %: 26.9%

Key points:

- * 90.7% jump in SGMW's Jul sales to 87,825 cars.
- * Strong growth in expectation for DHWL
- * Timely financial support from LZWL

Minicar market heating up further. Buoyed by the favorable policies and governmental subsidy, SGMW maintained its strong performance in the past month. Sales volume surged 90.7% in Jul to 87,825 units, bringing Jan-Jul total to 612,975 units, up 54.7% YoY (1H: 525,050 units, up 50.0% YoY), which has been equivalent to 72.1% of our full-year estimates (850,000 units, up 30.7% YoY). However, considering the capacity cap (900,000 units), we hold our forecast at the moment with awareness of potential moderate surprise on the up side.

Foreseeable strong growth for DHWL. As a core supplier of SGMW, we, therefore, believe DHWL, especially its parts & components division, will benefit from this favorable trend and deliver satisfactory results in FY12/09F.

Capacity expansion plan. WLI, the actual operation body under DHWL, has capex plan of ~RMB600m for the coming two years (~RMB300m each year). The firmed part includes:

- RMB200m on an in-house production line for cylinder body & head,
- RMB100m on capacity expansion / technical improvement for parts & components
- RMB50m for specialized cars to expand capacity from 20,000 units to 50,000 units.

Recent corporate movement. DHWL has reached a MOU with LZWL, one of its substantial shareholders, regarding issuance of no more than HK\$135m convertible bonds to the latter with conversion price of HK\$0.738. The proceeds, in our view, will help DHWL complete remaining capital injection (~RMB226m) to WLI and raise its profit sharing from present 30.5% to 51.0%.

Table 1: Major corporate actions

Actions	
May, 07	DHWL reached JV agreement with LZWL.
Aug, 07	the new WLI was established under the JV agreement.
Aug, 07	Dragon Hill Development Ltd., the controlling shareholder of DHWL, sold 266.5m DHWL shares (29.05%) to LZWL at HK\$0.29 per share.
Aug, 07	DHWL injected RMB78.2m into WLI.
Dec, 08	DHWL issued HK\$100m convertible bond to LZWL with initial conversion price of HK\$0.74.
Jan, 09	DHWL injected ~RMB96m into WLI.
Jul, 07	DHWL reached MOU with LZWL. The latter will subscribe no more than HK\$135m convertible bond from the former

Source: Company data

Table 2: Peers comparison

Company	Ticker	Market cap (US\$m)	Historical P/E (x)	1-Yr P/E (x)	2-Yr P/E (x)	P/B (x)	ROE (%)
Auto parts & components							
Mintech	425 HK	908.0	14.7	12.8	10.9	1.9	13.6
Xinyi Glass	868 HK	1,616.2	17.0	12.6	10.7	2.7	16.9
Weichai Power	2338 HK	5,117.5	14.6	15.1	13.2	3.4	26.8
Average			15.4	13.5	11.6	2.7	19.1
Whole car							
Denway	203 HK	3,846.1	12.6	12.1	10.9	2.1	17.3
Geely Automobile	175 HK	1,716.9	11.2	11.2	9.9	2.5	26.9
Dongfeng Motor	489 HK	9,046.9	15.4	14.4	12.9	2.9	20.7
AVI China Industrial	2357 HK	1,375.2	n.a.	n.a.	20.4	4.1	(39.7)
Average			13.1	12.5	13.5	2.9	6.3
DH Wuling	305 HK	108.2	23.1	9.5	8.0	5.1	25.6

Source: Bloomberg

Table 3: P&L

Year to Dec (RMBm)	07A	08A	09F	10F	11F
Revenue	2,856.5	7,111.9	8,531.4	10,188.8	10,862.6
Cost of sales	(2,591.9)	(6,339.7)	(7,501.5)	(9,050.5)	(9,654.5)
Gross profit	264.5	772.2	1,030.0	1,138.2	1,208.1
Other income	36.5	85.1	83.3	100.8	109.8
Distribution costs	(51.7)	(187.2)	(224.5)	(268.1)	(285.9)
General and administrative expenses	(149.2)	(463.1)	(572.6)	(648.1)	(685.6)
Profit from operation	100.1	207.1	316.2	322.8	346.4
Net (loss) gain on held-for-trading investment	9.0	(0.2)	(1.0)	0.0	0.0
Share of results of an associate	0.2	0.8	0.8	0.9	1.0
Increase in fair value of investment properties	5.2	2.2	0.0	0.0	0.0
Finance costs	(17.2)	(45.0)	(55.1)	(61.7)	(62.4)
Profit before taxation	97.2	164.8	260.9	262.0	285.0
Income tax expenses	(22.6)	(27.9)	(44.7)	(45.5)	(50.0)
Profit for the period	74.6	136.9	216.3	216.5	235.1
Attributable to:					
Equity holders of the Company	11.1	32.6	74.8	104.0	111.4
Minority interests	63.5	104.2	141.5	112.5	123.7

Source: Company data, SBI E2-Capital

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