Deutsche Bank
Markets Research

F.I.T.T.

Industry
Asia ex-Japan Passenger Car Sector

Date
8 August 2012

Asia

Automobiles & Components

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F.I.T.T. for investors

Ride the dragon, not the elephant

Prefer exposure to China over India; top picks: Hyundai, Kia and Brilliance

This report gives a detailed comparison of two of the fastest-growing auto markets. While the Indian and Chinese passenger vehicle (PV) markets are likely to grow at comparable rates over 2010-20E, we argue that the Chinese PV sector will have a better sales mix, driven by a faster pace of urbanization and higher GDP per capita. This should lead to better profitability potential in the Chinese market for PV manufacturers, which are gaining market share. Our top picks are Hyundai, Kia and Brilliance.

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Choosing between markets – segment mix matters more than just growth

Investors usually focus on growth rates, and sometimes simply invest in the auto markets that deliver faster growth. However, we argue that regional auto stock selection should be based more on segment mix than just market growth. China's higher per-capita GDP in PPP terms (USD8,400 vs. USD3,700 for India) and higher urbanization (50% vs. 32%), together with faster growth prospects in these two categories, suggest to us that the Chinese auto market will enjoy better-quality growth in the compact and luxury segments. Meanwhile, we think Indian auto demand, although having a slightly faster rate than China, will still be driven by the less profitable subcompact segment. This differentiates the profitability outlook, as seen for Hyundai, which has a c.10-11% EBIT margin in China vs. c.5-6% in India in recent years, on our estimates.

Hyundai, Kia and Brilliance most preferred across the region

We believe these companies have the right products to benefit from China's growing auto segments, which should allow them to gain market share and outperform their peers. Hyundai and Kia increased their Chinese market share from 6.7% in 2007 to 9.7% in 1H12. We have recently upgraded our above-consensus 2012-14E earnings on both, and their stocks offer the best 2012E P/E to growth metric in the region, in our view. Brilliance provides exposure to China's luxury market with its BMW JV. We expect the JV's sales momentum to continue, given the upcoming new 3-series sedans. Our target valuation (17x 2012E EPS) is justified by a 2011-14E EPS CAGR of 23%. On the other hand, Indian auto valuations are more expensive than those of their peers despite offering lower structural growth in the medium to long run. Mahindra trades at 15x FY13E EPS, despite an EPS CAGR (FY12-14E) of 7% following our recent earnings downgrade.

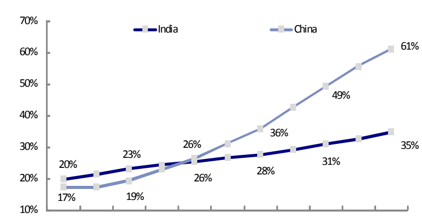
Valuation methodology and risks

Our target prices for Chinese and Korean autos are based on P/E, whereas, for India, we use a mix of DCF and relative multiples. A commonly discussed downside risk for China/India is capacity over-build. Assessments are complicated by imports/exports, but 1) our China forecasts already imply production utilization declines and 2) we view utilization declines as manageable. Other key risks are lower-than-forecast Chinese demand, a better demand/pricing environment for gasoline cars in India, and a strong KRW and lower-than-expected global auto demand (for Hyundai and Kia).

Top picks	
Hyundai Motor (005380.KS),KRW236,500.00	Buy
Kia Motors (000270.KS),KRW75,900.00	Buy
Brilliance China (1114.HK),HKD7.51	Buy

Companies Featured	
Hyundai Motor (005380.KS),KRW236,500.00	Buy
Kia Motors (000270.KS),KRW75,900.00	Buy
Brilliance China (1114.HK),HKD7.51	Buy
Dongfeng Motor (0489.HK),HKD11.62	Buy
Geely Auto (0175.HK),HKD2.55	Buy
Mahindra & Mahindra (MAHM.BO),INR695.50	Hold
Maruti Suzuki Limited (MRTI.BO),INR1,146.90	Hold
Tata Motors Ltd (TAMO.BO),INR238.75	Hold

Urbanization: China vs. India



Source:CEIC, United Nations Department of Economic and Social Affairs

Deutsche Bank AG/Hong Kong

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Executive summary

Structural factors support preference for Chinese auto market

China and India together account for just a quarter of the world's PV demand, while containing about 37% of the world population. With a low penetration of car ownership, these markets should grow considerably faster than the developed markets going forward. Various studies identify urbanization and per-capita GDP growth as drivers for PV demand, not only for volume but also for product mix. The Chinese urbanization level (50%) is significantly higher than that of India (31%), and we expect it to grow at a faster rate for the period 2010-20E. Together with higher expectations for China's per-capita GDP growth vs. India, these factors should bode well for the demand for the higher-priced compact and luxury auto segments in China vs. the sales skew towards subcompact cars in India. Therefore, we argue that China will provide better profit growth opportunities than India for auto manufacturers despite slightly lower volume growth in China in the foreseeable future.

When looking at the regional PV manufacturers under our coverage, we prefer companies that can win market share in China, not by under-cutting on price (i.e. hurting margins) but by offering compelling products in fast-growing segments. We therefore have Hyundai, Kia and Brilliance China as our top picks, as Hyundai/Kia have been gaining share in the compact car segment, while Brilliance's BMW JV benefits from the Chinese's ever-increasing demand for luxury autos.

Korean autos also the most attractive in P/E-to-growth terms

Our target prices for Chinese and Korean auto stocks are based on forward P/E, whereas, for India, we use a mix of DCF and relative multiples. While a cross-country valuation comparison may be partially flawed, due to differences in accounting policies, we still think that P/E multiples, P/E relative to the local indices and P/E vs. growth provide useful bases for comparison among the Asian auto companies.

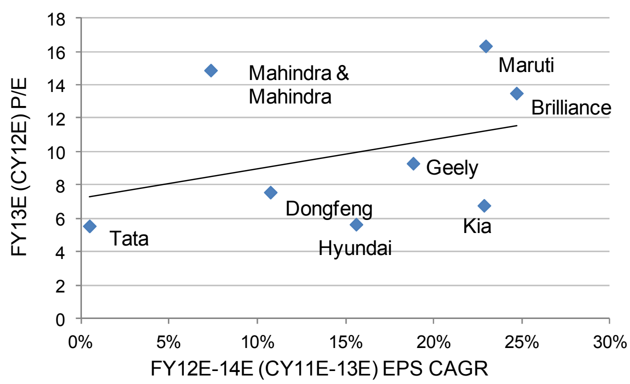
We find the Korean stocks are most attractively valued, given their low P/Es, larger P/E discounts to the local index and low P/E to growth ratios. For the Chinese auto companies for which we have Buy recommendations, their P/E levels are higher than the Korean's but offer slightly higher earnings growth, hence justifying the Buy ratings. The Indian auto companies appear to be more richly valued in terms of P/E, P/E relative to the local index, and P/E to growth. Hence, we have Hold recommendations on these.

Our ladder of Buy preferences for the regional PV manufacturers is Hyundai, Kia, Brilliance, Dongfeng, Geely. For the India auto stocks, on which we have Hold recommendations, our ladder of preference is Mahindra, Maruti and Tata.

Although our top picks, Hyundai and Kia, offer slightly less share price upside compared to Geely Auto due to latter's share price correction recently, we have a stronger conviction in our earnings forecasts for Korean autos. Furthermore, given the additional production capacity gains that Korean automakers are seeing through a combination of productivity and production line adjustments, we believe there exists upside risk to consensus earnings forecasts. We believe the greatest upside to Korean automakers could eventually come from an ASP improvement in various markets. Hyundai Motor, in particular, has been very aggressive in raising prices of its new models in major markets, thanks to its improved quality and brand. In this respect, Kia Motors is also following Hyundai's footsteps, although its brand recognition remains below that of Hyundai. However, given its new model pipeline, and investment into brand and marketing, we believe it is just a matter of time before Kia narrows its pricing gap with Hyundai.

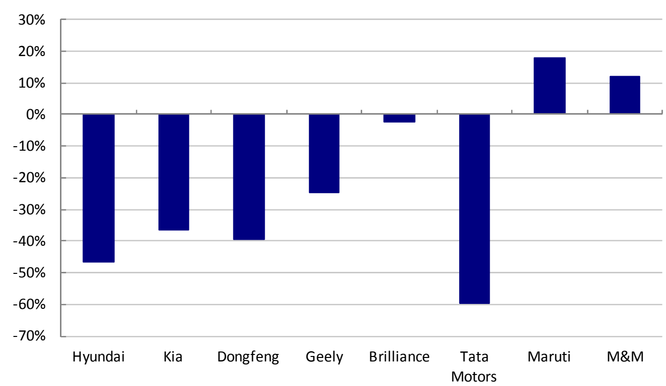
Although another top pick, Brilliance China, offers less share price upside and less attractive P/E-to-EPS growth relationship compared with the other two Chinese auto stocks featured in this report, due to Brilliance share price run recently, we like the company's scarcity value as it is the only listed auto manufacturer in Asia-ex Japan which has a pure focus on the China luxury car segment. Moreover, even though we have already expected Brilliance to deliver the strongest 2012-13 EPS GAGR amongst the stocks featured in this report, we still see further 2013-14E earnings upside given the demand of the new BMW 3-series, possible addition of more new models in to the BMW JV's line-up, and room for cost cut.

Figure 1: P/E vs. growth comparison



Source: Reuters, Deutsche Bank estimates

Figure 2: PE discount/premium to domestic market (current)



Source: Bloomberg Finance LP, Deutsche Bank

Risks

For the Chinese PV market, if the macroeconomic environment rebounds faster in 2H12, with better consumer sentiment, we could see faster vehicle sales growth. On the other hand, if the macroeconomic environment remains weak for a longer-than-expected period, vehicle sales might remain depressed for the full year, leading to more serious inventory pile-ups and pricing/margin pressures.

For the Indian PV market, our growth forecasts for FY13 could be at risk if the demand for gasoline models continues to be weak on account of elevated gasoline prices. In addition, a future increase in the supply of diesel engines, and/or a further depreciation of the INR would create downside risks to manufacturers' margins.

For the Korean auto stocks, additional risks are 1) a strong KRW, 2) lower-than-expected global auto demand, given their global business exposure, 3) a weak JPY vs. KRW rate, which might result in market share loss to Japanese automakers, and 4) fierce price competition in China, resulting in ASP cuts.

Global automakers' valuation

Figure 3: Valuation of global passenger vehicle manufacturers under Deutsche Bank's coverage (7 August 2012)

Name	Ticker	Rating	TP	Price	Mkt cap	PE (x)		EPS growth (%)		P/BV (x)		EV/EBITDA (x)		ROE (%)	
			(Local $)	(Local $)	(USDm)	2012E	2013E	2012E	2013E	2012E	2013E	2012E	2013E	2012E	2013E
Europe															
Volkswagen AG	VOWG.DE	Buy	165.00	134.75	80,634	6.5	6.4	8.4	1.2	0.97	0.84	3.1	2.7	15.7	14.0
Daimler	DAIGn.DE	Hold	42.00	41.81	55,349	7.9	7.5	-0.6	5.7	1.16	1.07	3.1	3.0	14.1	14.8
BMW	BMWG.DE	Hold	68.00	60.51	47,945	8.8	8.7	0.5	1.5	1.07	0.97	2.9	2.7	12.8	11.8
Fiat	FIA.MI	Hold	3.70	4.20	6,449	12.4	6.6	78.4	89.5	0.39	0.35	2.5	2.4	3.2	5.6
Renault SA	RENA.PA	Buy	50.00	37.01	13,604	4.6	3.2	4.7	42.0	0.43	0.39	-1.2	-1.1	8.9	11.6
Peugeot SA	PEUP.PA	Hold	10.00	6.47	2,413	NM	13.4	NA	NA	0.14	0.13	1.4	1.0	-7.7	1.0
Un-weighted average						**8.0**	**7.6**	**18.3**	**28.0**	**0.69**	**0.63**	**2.0**	**1.8**	**7.9**	**9.8**
US															
Ford Motor	F.N	Buy	13.00	9.31	34,880	7.0	6.6	-11.9	5.6	2.60	1.91	1.1	0.7	37.6	35.3
General Motors Co	GM.N	Buy	31.00	19.85	30,817	5.5	4.9	-21.8	12.8	1.00	0.87	0.0	-0.2	20.7	20.3
Un-weighted average						**6.2**	**5.7**	**-16.8**	**9.2**	**1.80**	**1.39**	**0.6**	**0.2**	**29.2**	**27.8**
Japan															
Toyota Motor*	7203.T	Buy	3,700.00	3,185.00	126,974	11.5	9.9	207.2	15.9	0.89	0.84	2.0	1.6	8.0	8.7
Honda Motor*	7267.T	Buy	2,960.00	2,499.00	57,566	8.5	7.4	151.6	14.4	0.94	0.86	2.6	2.0	11.6	12.1
Nissan Motor*	7201.T	Buy	925.00	768.00	41,009	7.6	6.5	23.9	16.6	0.87	0.74	2.1	1.7	12.4	12.3
Suzuki Motor*	7269.T	Buy	2,025.00	1,479.00	10,604	10.6	9.7	45.8	8.7	0.78	0.72	2.0	1.8	7.7	7.7
Daihatsu Motor*	7262.T	Hold	1,525.00	1,369.00	7,456	8.6	9.3	3.8	-7.2	1.20	1.10	2.5	2.3	14.8	12.3
Fuji Heavy Industries*	7270.T	Hold	590.00	622.00	6,224	9.1	8.9	39.6	1.4	0.98	0.90	3.9	3.5	11.4	10.5
Mazda Motor*	7261.T	Hold	110.00	95.00	3,642	77.8	17.4	NA	347.0	0.60	0.58	6.9	5.5	0.8	3.4
Un-weighted average						**19.1**	**9.9**	**78.7**	**56.7**	**0.90**	**0.82**	**3.2**	**2.6**	**9.5**	**9.6**
Asia ex-Japan															
Hyundai Motor	005380.KS	Buy	325,000.00	236,500.00	46,052	5.7	5.1	20.3	11.1	1.13	0.94	5.8	5.1	22.1	20.1
Kia Motors	000270.KS	Buy	105,000.00	75,900.00	27,224	6.8	6.0	32.7	13.7	1.74	1.37	5.6	4.6	29.0	25.6
Tata Motors Ltd*	TAMO.BO	Hold	250.00	238.75	13,660	5.6	5.5	-0.5	1.4	1.66	1.30	3.3	2.8	35.2	27.1
Mahindra&Mahindra*	MAHM.BO	Hold	750.00	695.50	7,699	14.9	13.4	3.5	11.3	3.06	2.66	8.1	6.7	22.0	21.3
Maruti Suzuki *	MRTI.BO	Hold	1,100.00	1,146.90	5,976	16.3	13.4	24.1	21.8	1.97	1.76	7.9	5.9	12.7	13.8
Dongfeng Motor	0489.HK	Buy	15.60	11.62	12,909	7.6	6.4	3.6	18.4	1.48	1.24	2.7	2.0	21.3	21.1
Guangzhou Auto	2238.HK	Hold	6.70	5.76	4,779	7.9	5.9	-13.5	34.0	0.96	0.85	NM	NM	12.5	15.4
Brilliance China	1114.HK	Buy	9.60	7.51	4,862	13.5	10.7	23.6	25.7	3.33	2.54	NM	NM	28.4	27.1
Geely Auto	0175.HK	Buy	3.60	2.55	2,452	9.3	7.8	18.7	18.9	1.39	1.18	5.0	4.2	19.0	19.2
BYD	1211.HK	Sell	12.60	14.44	4,383	28.4	19.7	8.6	44.1	1.26	1.19	8.6	7.4	4.6	6.2
Unweighted average						**11.6**	**9.4**	**12.1**	**20.0**	**1.80**	**1.50**	**5.9**	**4.8**	**20.7**	**19.7**

*Source: Reuters, Deutsche Bank estimates, *Fiscal years ended March 2013, 2014 are referenced instead*

China and India comparison: we prefer the Chinese market

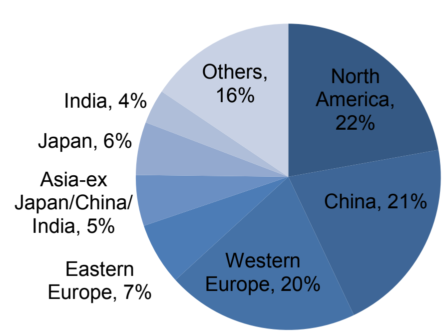
Key points

- The Chinese and Indian auto markets are viewed as attractive growth opportunities by investors in the auto sector.
- Auto markets in China and India are likely to grow at comparable rates in the near future, due to increasing urbanization and GDP per capita.
- However, China will be a much bigger and more profitable market due to a better product mix, underlined by its much higher per-capita GDP compared with India.
- China will also see further strength in luxury auto demand, given the emergence of more high net-worth households.
- Other areas that favor the Chinese auto market vs. India's include better infrastructure, a lower tax burden to auto manufacturers and better affordability for cars.
- We believe the market has overplayed the worries on China's new capacity additions.

China and India – two large markets with strong growth potential

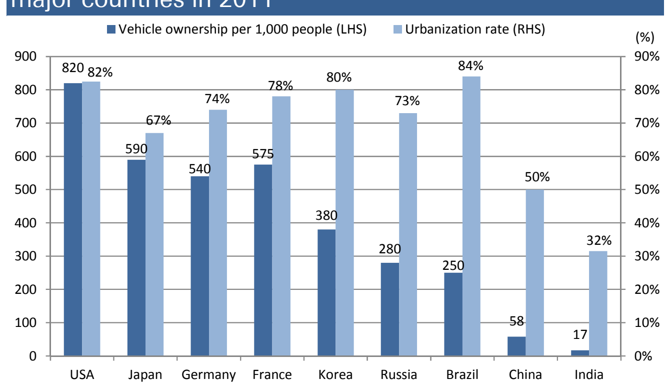
In 2011, China and India together accounted for about a quarter of the world's passenger vehicle (PV) demand. Meanwhile, the two countries contain about 37% of the world population. With a still-low penetration of passenger car ownership vs. other major economies globally, as shown in Figure 5, the Chinese and the Indian markets should grow considerably faster than the developed markets going forward, as urbanization improves further.

Figure 4: 2011 world personal vehicle sales breakdown (by sales region)



Source: LMC Automotive, Deutsche Bank

Figure 5: Vehicle ownership and urbanization ratio in major countries in 2011



Source: CIA World Factbook, KAMA, Deutsche Bank

China to remain a larger auto market than India for at least a decade

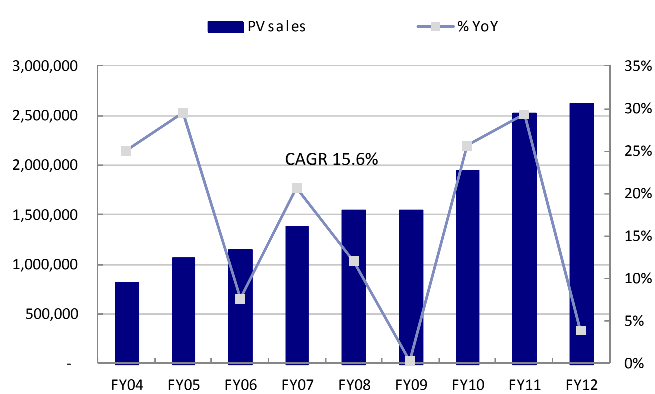
Figure 6: China and India macro and auto market summary comparison

	China	India
Domestic PV sales (CY2011/FY12)	14,472,416	2,617,914
PV Exports (CY2011/FY12)	456,878	507,317
Household penetration	17.5%	4.7%
Urbanization (2010/2020)	49%/61%	31%/35%
Cars per 1,000	56	17
Nominal GDP per capita (in USD)	5,184	1,527
Sales CAGR (CY03-11 / FY04-12)	22%	16%
Sales CAGR - next 2 years	11%	12%
Length of highways	4,106,400	492,352
Share of financed PVs	10-15%	70%

Source: CEIC, India Census 2011, Deutsche Bank

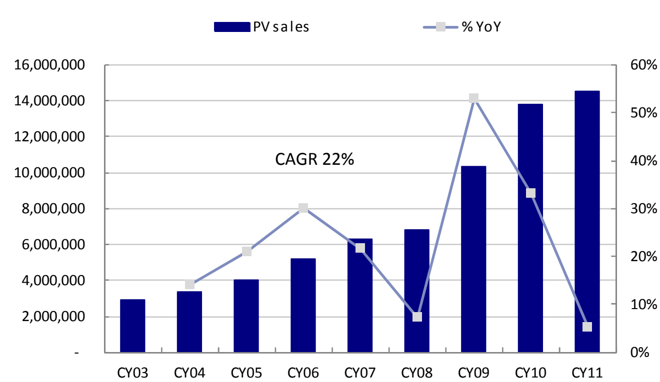
Figure 6 shows some basic macro and auto sector comparisons between the Chinese and Indian PV markets. The Indian PV market, with annual sales of 2.6m vehicles, is significantly smaller than the Chinese PV market, with annual sales of 14.5m vehicles. Over the last eight years, Chinese PV sales have grown at 22% p.a., compared with 15.6% for India. To reach the current level of Chinese sales within a decade, the Indian PV sector would have to grow at 20% p.a., which is a low probability scenario.

Figure 7: India – PV sales' long-term trend



Source: Society of India Automobile Manufacturers (SIAM), Deutsche Bank

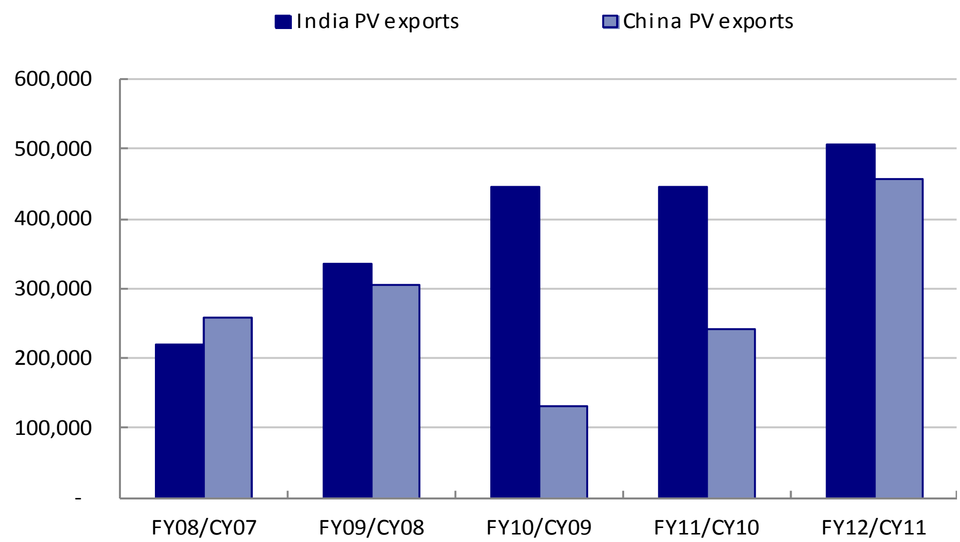
Figure 8: China – PV sales' long-term trend



Source: China Business Update (CBU), Deutsche Bank

However, India has successfully scaled up as an export hub, with larger numbers of PV exports vs. China, as shown in Figure 9. Therefore, this gives India an extra growth driver vs. China, despite a weaker macroeconomic backdrop to develop the domestic auto market.

Figure 9: China and India – passenger vehicle exports trend



Source: SIAM, CBU, Deutsche Bank

India's success as an exporter of cars is due to three factors: 1) a liberalized sector policy, which allows 100% foreign direct investment (FDI) and minimal constraints on investments – most state governments actively tailor industrial policy to attract automotive companies; 2) a well developed ecosystem of vendors, including several companies that have been bestowed with the Deming award (one of the most prestigious quality awards in the automotive sector, given by the Japanese Union of Scientists and Engineers); and 3) competitive labor costs.

The biggest exporters in India include Hyundai, Maruti (Suzuki), Nissan and Ford. Indeed, Nissan exports almost 80% of its Indian output, while Ford aims to supply 50 countries from its Indian plant. The Hyundai plant is among the largest production bases for the i10 model.

Faster urbanization growth in China suggests better-quality growth

Various studies[1,2,3] identify urbanization as one of the key drivers of automobile demand, as it creates the need and wealth for car ownership. Over the past decade, India's urbanization has increased by 3ppt, compared with 13ppt for China, and now Chinese urbanization (50%) is materially higher than that of India (31%). More importantly, according to the United Nations, China is expected to continue to urbanize at a faster pace in the current decade (2010-20). By 2020, China's urbanization level should grow to 61%, an 11ppt increase, compared with a 4ppt increase for India. The faster pace of urbanization should be a massive fillip to PV ownership growth in China (Figure 11), compared with India (Figure 12). What is more, even though India's auto demand will grow at a slightly faster rate due to a lower base, China's higher level of urbanization should provide a better infrastructure foundation to promote the growth of the higher-

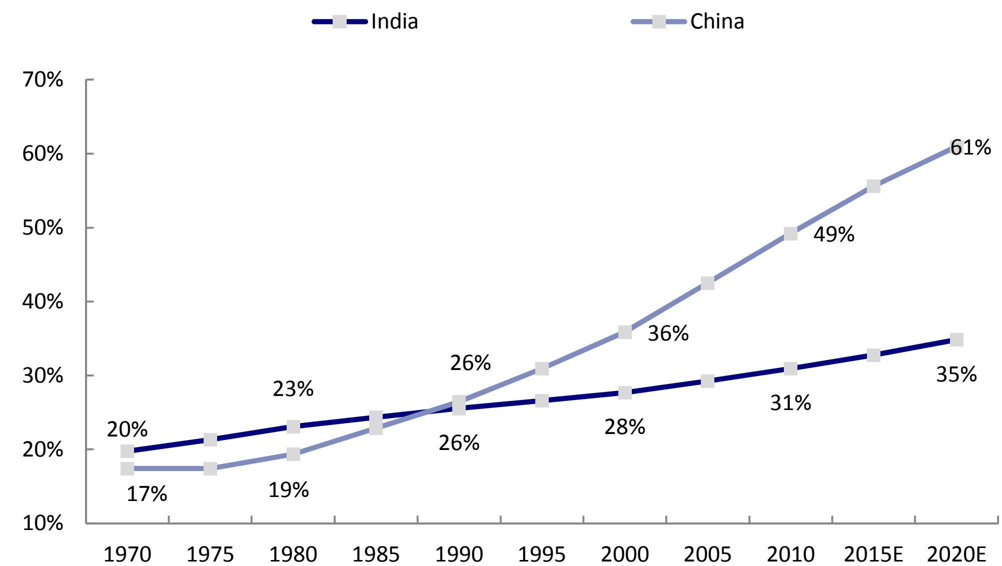
[1] "Vehicle Ownership and Income Growth, Worldwide: 1960-2030"(Dermot Gately, Joyce Dargay and Martin Sommer), 2007, The Energy Journal, Vol. 28, No. 4

[2] "Mass Car Ownership in the Emerging Market Giants", Marcos Chamon, Paolo Mauro, Yohei Okawa, Economic Policy, Vol. 23, Issue 54, pp. 243-296, April 2008

[3] World Economic Outlook, Apr 2005, Chapter 4, IMF

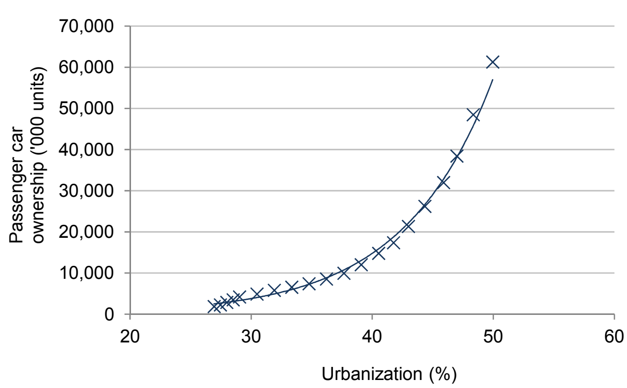
priced and higher-margin car segments (as shown in the subsequent sub-section of this report, "Higher Chinese per-capita GDP leads to better sales mix").

Figure 10: India and China urbanization trends



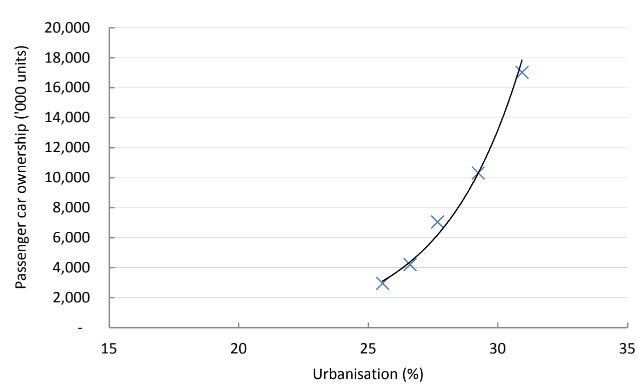
Source: CEIC, United Nations Department of Economic and Social Affairs

Figure 11: Urbanization rate and car ownership in China



Source: CEIC, Deutsche Bank
Note: Data from 1991-2011

Figure 12: Urbanization rate and car ownership in India



Source: United Nations, Department of Economic and Social Affairs, Deutsche Bank
Note: Data from 1991-2011

Higher Chinese per capita GDP leads to better sales mix

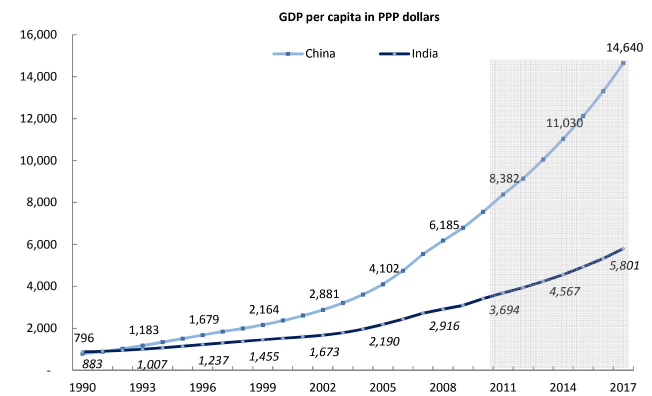
Demand growth may be comparable with India's likely acceleration at inflection point

Besides urbanization, GDP per capita growth is another driver for auto demand, and the GDP per capita level is also an indirect indicator of demand mix. At the moment, China's GDP per capita (PPP) stands at about USD8,400, vs. India's USD3,700. The IMF also forecasts that China's per capita GDP will register a five-year CAGR (2012-17E) of 10%, compared with 8% for India, implying stronger growth drivers for higher-priced vehicles in China.

On the other hand, it is also crucial to note that there is usually an acceleration in PV demand when GDP/capita (PPP) hits USD3,000-4,000. India's current GDP per capita

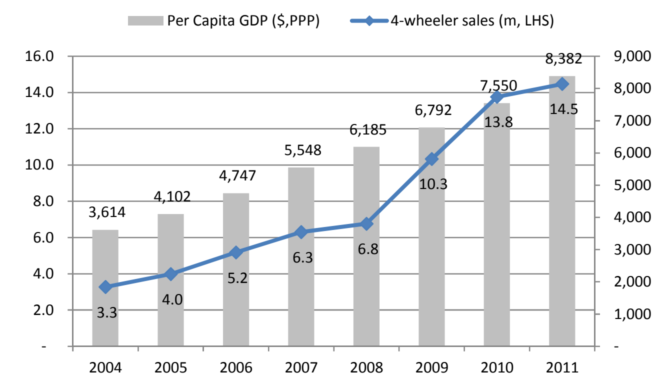
(PPP) is at a level similar to China's in 2004, after which the Chinese auto market registered a five-year CAGR (2004-09) of 26% (during the same period, Chinese per capita GDP grew at about 13%) (Figure 14). As such, we have reason to believe that Indian auto sales growth could pick up in the coming years and grow at similar levels to the Chinese.

Figure 13: China and India GDP per capita in PPP dollars



Source: IMF, Deutsche Bank

Figure 14: Chinese auto demand growth accelerated when per capita GDP reached USD3,600



Source: CBU, CEIC, Deutsche Bank

Higher Chinese per capita GDP = demand for higher-priced cars = better margins

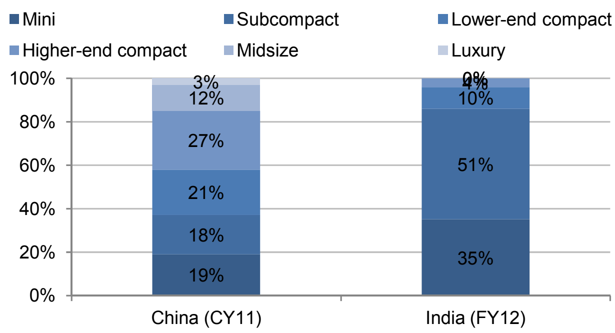
When exploring opportunities across the global auto markets, we believe investors tend to focus on market growth rates first and sometimes simply invest in the auto markets that deliver faster growth. However, we believe that, while growth in the overall market is important, the profitability of that growth and the ability of an auto manufacturer to target the most attractive segments within the broader market are equally, if not more, important factors to take into account.

In the subsequent section of this report, "Top pick Hyundai, Kia and Brilliance", we elaborate by providing two case studies showing that 1) Luxury auto brands gained market in China in 2009-12 with their participation in the fastest-growing high-margin luxury segment, and their net profit and share prices also surged, 2) Japanese brands gained market share in the US in the late 90s to early 2000s with their strength in the popular decent-margin compact/mid-sized sedan segments. Their profitability and share prices outperformed their US peers.

Chinese per capita GDP (PPP), at USD8,400, is 2.5x India's (USD3,700), and this difference manifests itself dramatically in the market structure, i.e. the low-margin segments of mini-cars and sub-compacts account for about 85% of Indian cars compared with just 37% for demand in China (Figure 15). On the other hand, more than 40% of the Chinese sedan market consists of high-end compacts, mid-sized cars and luxury cars – three segments that have better margins than the mini-cars and sub-compacts that dominate India's market. As such, we think auto manufactures manage to achieve better profit margins in China vs. India due to the aforementioned product mix difference.

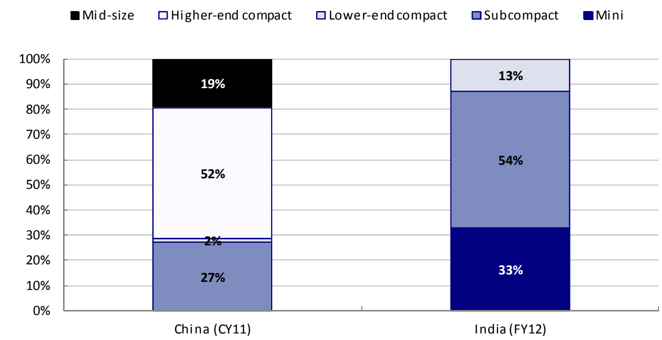
This dynamic is best illustrated in the sales mix of Hyundai, which has a material presence in both countries (Figure 16). It goes without saying that a better sales mix in China also implies better margins: we estimate that Hyundai's EBIT margin in China stands at around 11%, compared with 5-6% in India in recent years.

Figure 15: China and India sedan sales by segment



Source: SIAM, CBU, Deutsche Bank

Figure 16: Hyundai segment mix in China and India

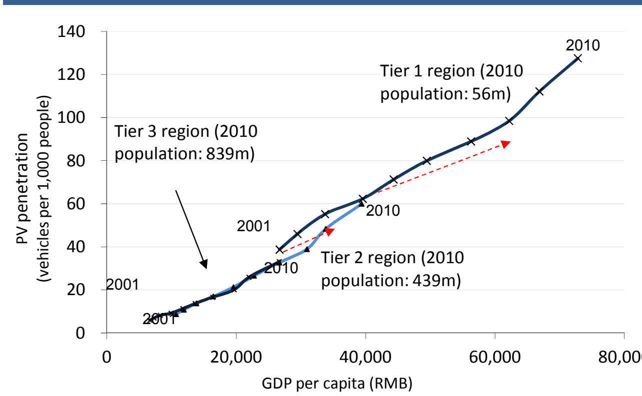


Source: SIAM, CBU, Deutsche Bank

A higher level and faster rate of urbanization in China compared with India are driving growth deeper into China's lower-tier regions and changing its market structure. Figure 17 shows that, as China's Tier-1 region has become more saturated in terms of car ownership, with high GDP per capita, it has become a hotbed of luxury segment car demand (driven by replacement), which currently still accounts for less than 10% of Chinese auto demand. The primary beneficiary of the luxury car demand growth under our coverage would be Brilliance given its JV with BMW.

Meanwhile, increasing urbanization in inland China (Tier-3 region), with still-low auto penetration, also ensures a continuation of demand growth in the mass-market small car segment (including the subcompact and compact segments), particularly when GDP per capita continues to growth. This should benefit companies like Hyundai, Kia, Dongfeng and Geely, which have established brand names in the segment with popular products. Note that, since China's Tier-3 region's GDP per capita of more than USD4,000 is still higher than India's nationwide average, demand from the Tier-3 region is still likely to be driven by a higher-priced car segment (and hence higher margins) vs. India.

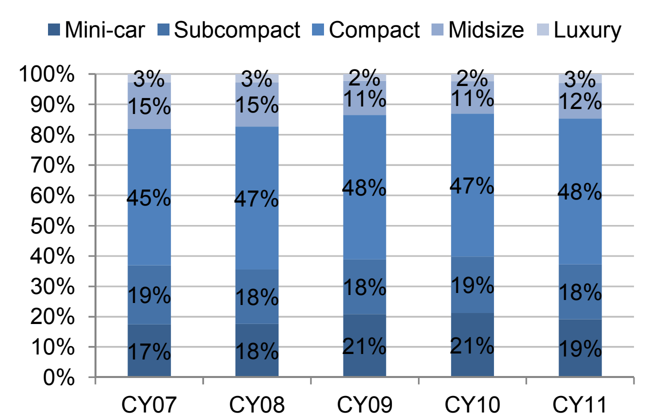
Figure 17: Penetration growth trend in China's Tier-1,-2 and -3 markets (2001-2010)



Note: Tier 1 region includes Beijing, Shanghai and Tianjin. Tier 2 region includes Fujian, Guangdong, Inner Mongolia, Jiangsu, Liaoning, Shandong and Zhejiang Provinces, Tier 3 region includes the remaining provinces in China.

Source: CEIC, Deutsche Bank

Figure 18: China – segmental market share trend of locally produced sedans and mini-cars



Source: CBU, Deutsche Bank

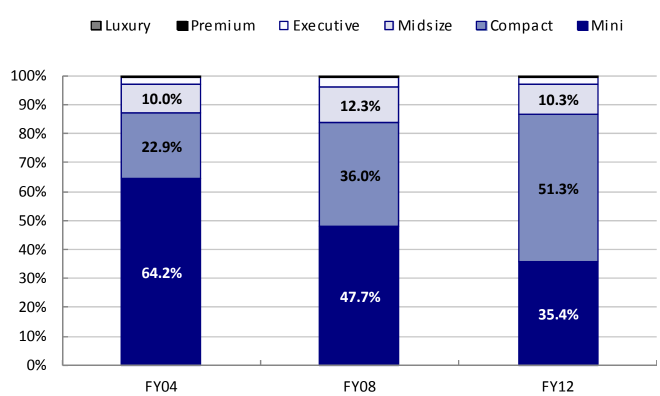
India's consumers have a greater demand for "smaller-sized cars"

Figure 19 and Figure 20 demonstrate the product mix shift in India and China. We have harmonized classifications by size of vehicle (in the Indian way), so that market structures are comparable.

For India, we can see that its auto sales growth has been driven by the expansion of the "compact" segment (*equivalent to the subcompact car segment in global terms*), from 22.9% of sales in FY04 to 51.3% of sales in FY12. Meanwhile, in China, the "mid-sized" and "executive" segments (*equivalent to the compact car segment in global terms*) were the drivers for auto demand growth, with the sales contribution growing from 31.1% in 2003 to 48.0% in 2011. Since cars in the "mid-sized" and the "executive" segments fetch higher prices and better margins for manufacturers vs. the "compact" segment, China's auto sales growth provides better earnings quality for manufacturers.

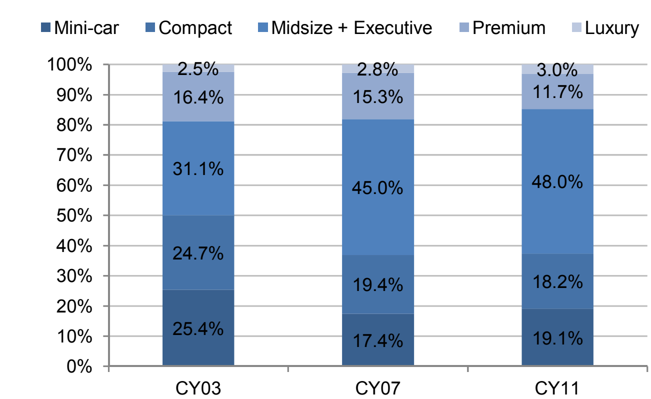
We also note that China's "mid-sized' and "executive" segments have grown at the expense of the "premium" segment (*equivalent to the mid-sized car segment in global terms*) probably due to 1) increasing demand in Tier-2/3 regions and 2) the government's supportive policies on fuel-efficient car sales. In addition, the premium segment in China is also experiencing more competition from the entry-level luxury brand models. As such, we think this segment (including popular models, such as the Honda Accord) will continue to underperform the luxury and small car segments in terms of growth, thus implying a negative outlook for companies such as Guangzhou Auto.

Figure 19: India – sedan segment share trend



Source: SIAM, Deutsche Bank

Figure 20: China – sedan segment share trend



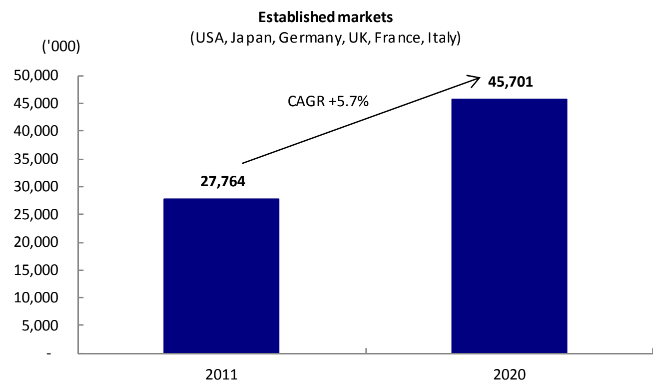
Note on classification adjustments: Luxury = Luxury (in Chinese terms; Premium = Mid-size (in Chinese terms); Midsize + Executive = Compact (in Chinese terms); Compact = Subcompact (in Chinese terms); Mini = Mini (in Chinese terms)

Source: CBU, Deutsche Bank

Higher wealth level in China promotes the luxury auto market

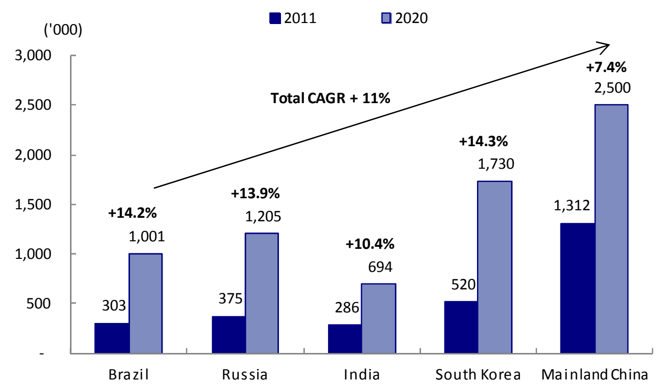
China has more millionaires than Brazil, Russia and India put together (Figure 22). Its number of millionaires is expected to almost double from a level of 1.3m in 2011 to 2.5m in 2020, outgrowing established markets' norms (Figure 21), according to a study by Deloitte. This compares with 0.7m millionaires in India by 2020E.

Figure 21: Number of millionaires in the established markets



Source: Deloitte, Deutsche Bank

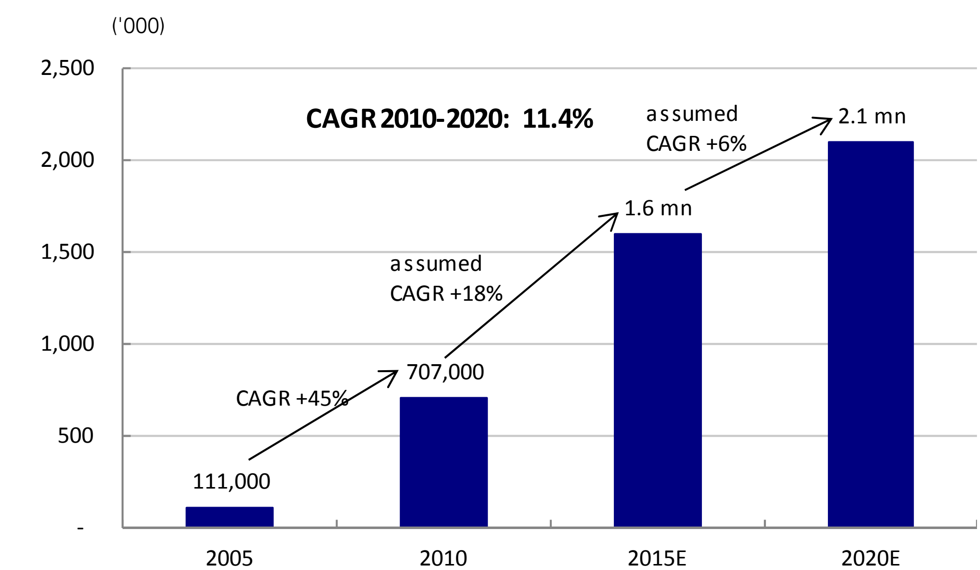
Figure 22: Number of millionaires in some of the emerging markets



Source: Deloitte, Deutsche Bank

With the increasing wealth accumulation for the high net-worth households, Chinese premium car sales are expected to expand at a CAGR of 11.4% in 2010-20, according to Global Insight, driven by the rising level of prosperity. We see upside risk to this estimate. For India, even though the growth rate for luxury car demand during the period may be higher, due to a much lower sales base, the consequent earnings enhancement to the relevant auto companies would be immaterial in terms of making us more upbeat.

Figure 23: China premium auto segment development



Source: Global Insight, Deutsche Bank

Low share of financing and government policy to encourage consumption are positive for China, especially for the luxury segment that carries higher price tags

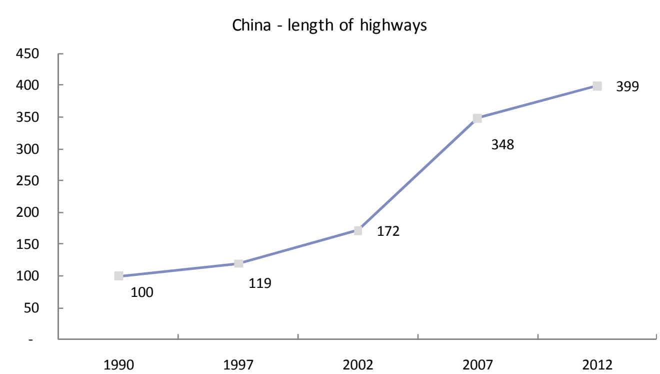
We estimate that the share of financed PVs is 10%, compared with a significantly higher level of around 70% in India. With Chinese government policies focused on encouraging personal consumption, the ratio of financed vehicles should increase in future, which would provide an additional impetus to demand. We note that global OEMs have also started to scale up their auto finance divisions, reflecting the shifting behavior of the Chinese buyers.

In contrast, in India, the upside to financing is limited as the auto finance market is fairly mature. The current level, at around 70-72% for passenger cars, is close to the pre-crisis peak.

Road infrastructure in China remains significantly ahead of India

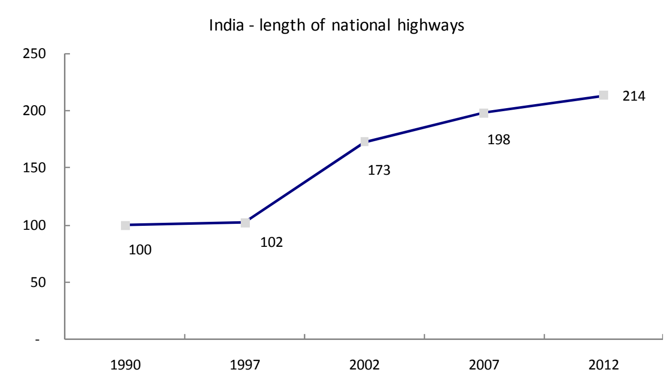
Over the last 15 years, India has doubled the length of its national highways. During the same period, China has tripled its highway network. At present the total length of highways in China stands at 4,106,400km, compared with only 492,350km in India. The better infrastructure network in China also lays a good foundation for better-quality auto sales growth, as a superior road network and quality should encourage consumption of better-quality cars, which should bode well for the profitability of auto manufacturers in China.

Figure 24: Length of highways in China – indexed to 100 in 1990



Source: CEIC, Deutsche Bank

Figure 25: Length of national highways in India – indexed to 100 in 1990



Source: Ministry of Roads & Transportation, Deutsche Bank

Tax structure: Burden in China is lower, supporting affordability

Excise duty in India vs. consumption tax (based on engine size) and VAT in China

In India, the primary tax is excise duty, which is one of three rates (12%, 24%, 27%), based on the size of car. In addition, states levy tax (7-10%) and *octroi* charges (a local tax collected on products brought into a district for consumption) for entry into cities (2.5-5%). There is also a one-off road tax and fees for registration of the car. The average tax burden in India on a mid-sized car amounts to 40% of the factory-gate price.

China levies a consumption tax on cars which ranges from 1% to 40% based on engine size, followed by value-added tax (VAT) of 17% (on the production value-added amount). In addition, an urban maintenance and construction tax (1-7% of the VAT paid) and education charge (3% of the VAT paid) are included in the retail price. Furthermore, there is a 10% vehicle purchase tax. The total tax on a mid-sized car amounts to roughly 20% of the factory-gate price.

Figure 26: Passenger vehicle tax – India

Tax at ex-factory level	
Excise duty	
Small cars	12%
Medium-sized cars	24%
Premium cars	27%
Tax at retail level	
State tax	7-10%
Octroi charges	2.5-5%
Life-time road tax	minimal
Insurance	3%-4% of car value

Source: Deutsche Bank, Small cars – length <4000mm and engine capacity less than 1200cc for petrol and less than 1500cc for diesel variants, Medium size cars –length >4000mm and engine capacity less than 1200cc for petrol and 1500cc for diesel variants, Premium cars – length >4000mm and engine capacity more than 1500cc

Figure 27: Passenger vehicle tax – China

Tax at ex-factory level	
VAT	17% on the production value-added amount
	Assuming raw material cost is 80% of revenue, VAT is roughly 20%*17%=3.4%
Consumption tax	
X≤ 1.0L	1%
1.0< X ≤ 1.6L	3%
1.6< X ≤ 2.0L	5%
2.0< X ≤ 2.5L	9%
2.5< X ≤ 3.0L	12%
3.0< X ≤ 4.0L	25%
X> 4.0L	40%
Urban construction tax	5% taxed on sum of consumption tax and VAT
	5%*(5%+3.4%)=0.4%
Education surcharge	3% taxed on sum of consumption tax and VAT
	3%*(5%+3.4%)=0.3%
Import tariff (for import only)	25%
Tax at retail level	
Purchase tax	10%
Vehicle and vessel Tax	(In RMB; annual collection)
X≤ 1.0L	60 - 360
1.0< X ≤ 1.6L	300 - 540
1.6< X ≤ 2.0L	360 - 660
2.0< X ≤ 2.5L	660 - 1,200
2.5< X ≤ 3.0L	1,200 - 2,400
3.0< X ≤ 4.0L	2,400 - 3,600
X> 4.0L	3,600 - 5,400

Source: State Administration of Taxation, Deutsche Bank

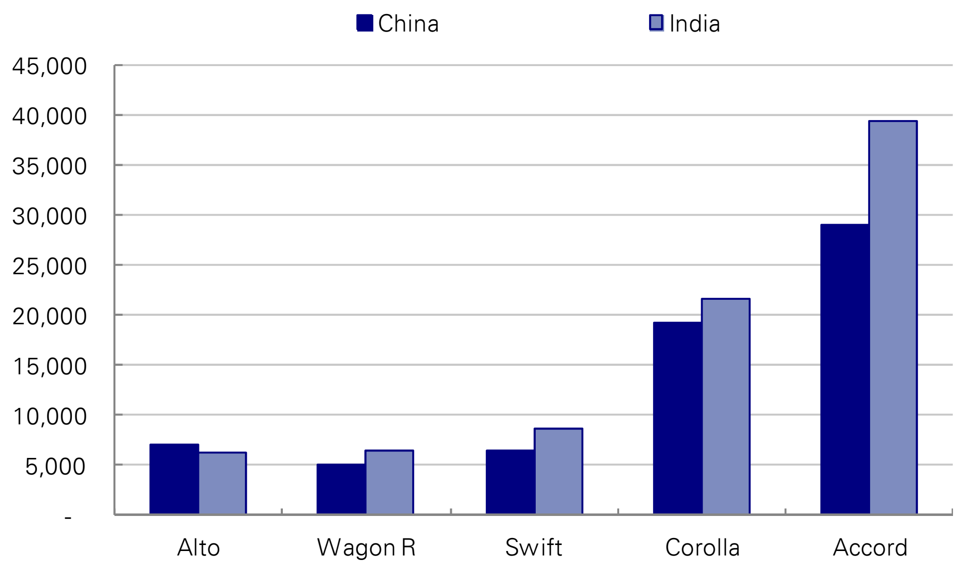
Cars are generally more expensive in India due to a higher tax burden

Our analysis suggests that, for comparable models, the price of the car in India is 15-30% higher than in China, due largely to the differences in taxes.

For example, we have converted the estimated retail price at the current exchange rates for the Suzuki Swift and have found that it is almost 30% more expensive in India. We compared the price of the low-end variant with a gasoline engine.

In the cases of the Toyota Corolla and Honda Accord, the price differential is still significant (13-35%) and is unlikely to be due purely to the marginally larger engines being equipped in the Indian models. In other words, we think the higher taxes in India are also attributable to the higher prices for larger cars.

Figure 28: Comparison of retail selling price of common car models (in USD)



Source: Industry data, Deutsche Bank

India – higher car prices despite lower affluence than China

The higher price of cars in India for comparable models is even more striking when considered in the context of per capita GDP between China and India. Currently, China's per capita GDP (PPP), at USD8,400 is more than twice that of India (USD3,700). This also shows the significantly higher affordability levels for cars in China compared with India, and adds to the attractiveness of the Chinese market relative to India.

Medium-term demand: China and India to post similar growth

Monetary easing expected in China but India policy rates unlikely to fall significantly

Our China economist (Jun Ma) expects monetary policy easing in 2H12 to counteract the deceleration in demand. In contrast, we expect the Reserve Bank of India to reduce policy rates minimally in FY13, as it continues to focus on the elevated level of inflation, and nudges the government for fiscal reforms. We forecast a softening demand outlook and rising competition across most segments in India.

China and India offer similar medium-term growth rates but different profitability

Over the next two years, we expect the Indian and Chinese PV markets to grow at comparable rates. Our forecasts imply two-year CAGRs (CY11-13E) of 11% and 10% for China and India, respectively. Even though we expect a slightly faster growth rate in India beyond 2013E, we still favor investing in the China auto market because growth in China will be driven more by the higher-priced, higher-margin sedan and SUV segments, whereas growth in India will be driven more by the lower-end, lower-margin utility vehicles.

Figure 29: China and India – passenger vehicle sales volume forecasts

(m units)	FY10/ CY09	FY11/ CY10	FY12/ CY11	FY13E/ CY12E	FY14E/ CY13E	Remarks
China						
Sedans	7.47	9.49	10.12	11.04	12.30	We think that demand for local brand cars troughed in 2H11/1H12E, and this should help to ensure YoY growth reaccelerates in 2H12E
YoY%	*48.1%*	*27.0%*	*6.6%*	*9.1%*	*11.4%*	
MPVs	0.25	0.45	0.50	0.53	0.58	MPV sales outperformed in 2010/11 on a low base, so growth is likely to normalize in 2012/13E
YoY%	*26.1%*	*78.9%*	*11.7%*	*6.1%*	*10.2%*	
SUVs	0.66	1.33	1.59	1.92	2.22	We expect the SUV segment's sales outperformance to continue, on increasing demand, to differentiate this from typical sedan consumption
YoY%	*47.1%*	*101.3%*	*20.2%*	*20.5%*	*15.6%*	
Mini-cars	1.95	2.49	2.26	2.40	2.64	We think that demand for mini-cars troughed in 2011 and that long-term demand should still be supported by rural economic development and government measures
YoY%	*83.4%*	*27.8%*	*-9.4%*	*6.3%*	*10.0%*	
Total passenger vehicles	**10.33**	**13.76**	**14.47**	**15.89**	**17.74**	
YoY%	*52.9%*	*33.2%*	*5.2%*	*9.8%*	*11.7%*	
India						
Passenger cars	1.53	1.97	2.02	2.19	2.42	Lack of diesel engines from Maruti could affect demand; gasoline car demand very weak
YoY%	*25.2%*	*29.2%*	*2.2%*	*8.8%*	*10.3%*	
Utility vehicles (incl. MPVs)	0.42	0.53	0.60	0.67	0.77	New model launches and strong volume momentum from Maruti and M&M
YoY%	*27.4%*	*25.3%*	*13.7%*	*12.0%*	*13.5%*	
Total passenger vehicles	**1.95**	**2.50**	**2.62**	**2.87**	**3.18**	
YoY%	*25.7%*	*28.4%*	*4.6%*	*9.5%*	*11.0%*	

Source: SIAM, CBU, Deutsche Bank estimates

Industry utilization in China will decline, but unlikely to destroy margins

One key investor reservation in relation to investing in the China/India auto sector is the concern about overcapacity in the PV segment. With the exponential growth of China PV sales in 2009/10 and the consequent tightness in capacity, auto manufacturers have expanded their production capacity in China in the past couple of years. As it takes about two years to set up new facilities, we expect a wave of new capacity additions in 2012-13. On our estimates, by the end of 2013, China's PV production capacity will be expanded by about 37% vs. year-end 2011, to about 24.0m units. Since we forecast mild passenger sales growth in 2012-13, we estimate a reduction in production utilization from about 90% or more in 2009-2011 to about the 80% level in 2012-13.

Even though lower sector utilization could imply lower sector margins due to less efficient use of auto manufacturing fixed assets, we do not expect the margin pressure to be excessive for Chinese auto manufacturers in general, given 1) 80% is still a healthy level for auto production in a developing market with sustainable growth potential, 2) a still-healthy utilization level is unlikely to trigger a widespread price war, and 3) some capacity planning, as announced by OEMs for 2014 onwards, is quite flexible, i.e. there exists room for downward adjustments without incurring many costs.

From what we understand from the Chinese auto companies, the most recent round of price cuts is due more to the slowdown in demand growth amid a weak macro backdrop rather than to the increase in auto supply. In addition, these discounts are supposed to be temporary, and can be readily removed when the market recovers.

In addition, for the companies we like (Hyundai, Kia and Brilliance), their capacity expansion is mainly in response to the strong demand for their products, as they have been producing at above-100% utilization. Therefore, we still expect their capacity utilization to stay above the market average and their pricing to stay relatively more resilient, despite new capacity additions.

Figure 30: China passenger vehicle production capacity estimates

(Units)	2010	2011	2012E	2013E
Shanghai Auto	2,800,000	3,420,000	4,060,000	4,860,000
First Auto	2,350,000	2,620,000	3,170,000	3,520,000
Dongfeng Motor (including parent company's capacities)	2,000,000	2,348,000	2,920,000	3,450,000
Changan Auto	2,635,000	2,635,000	2,815,000	2,965,000
Beijing Auto	690,000	890,000	1,290,000	1,590,000
Guangzhou Auto	940,000	1,340,000	1,480,000	1,760,000
Chery	850,000	900,000	900,000	1,100,000
BYD	700,000	900,000	900,000	1,000,000
Geely Auto (excluding Volvo)	560,000	680,000	730,000	900,000
Great Wall Motor	300,000	400,000	650,000	650,000
Market share of the above companies	92%	93%	91%	91%
Year-end PV capacities of the above companies (m units)	**13.83**	**16.13**	**18.92**	**21.80**
Implied year-end PV segment capacity (m units)	**15.00**	**17.43**	**20.79**	**23.95**
YoY%	*24%*	*16%*	*19%*	*15%*
Implied PV segment utilization (%)*	**101%**	**89%**	**84%**	**79%**

* Average capacities were used instead of year-end capacity.

Source: Company data, Deutsche Bank estimates

Meanwhile, capacity utilization for PV companies in India has generally been above 80% due to strong demand growth (normalized growth of 12-14% YoY). The fall in utilization rates in FY12 was driven by two factors: 1) a prolonged strike at one of Maruti's plants (constituting 10% of industry capacity), and 2) diesel engine capacity constraints for Maruti, as well as the industry. We expect utilization rates to stabilize by FY14, as demand recovers slightly from a low FY13 base, and as companies set up adequate diesel engine capacities.

We note that most Indian subsidiaries of global auto companies (excluding Maruti) are also export hubs for certain entry-level models. This ensures that domestic demand swings have less impact on capacity utilization levels. Export volumes constitute c20% of overall industry (ex-Maruti) production. Hyundai India exports 40% of its production, as it is the global hub for the i10. Similarly, while Nissan, Ford and Toyota have set up capacities in India to manufacture small cars developed for the Indian market, they have begun to export significant volumes to other developing markets.

Figure 31: India passenger vehicle production capacity estimates

(Units)	FY11	FY12	FY13E	FY14E
GM	225,000	250,000	250,000	250,000
Toyota	80,000	160,000	210,000	310,000
Ford	200,000	200,000	200,000	200,000
VW	100,000	110,000	110,000	110,000
Nissan	50,000	100,000	150,000	200,000
Hyundai	630,000	630,000	670,000	670,000
Honda	100,000	100,000	160,000	160,000
Fiat	100,000	100,000	100,000	200,000
Maruti Suzuki	1,250,000	1,450,000	1,715,000	1,900,000
Tata Motors	500,000	500,000	500,000	500,000
Mahindra	310,000	310,000	310,000	310,000
Market share of the above companies	99%	98%	98%	98%
Total capacity of above companies	**3,545,000**	**3,910,000**	**4,375,000**	**4,810,000**
Implied industry capacity	**3,590,619**	**3,987,745**	**4,464,286**	**4,908,163**
YoY%	*28%*	*11%*	*12%*	*10%*
Implied capacity utilization (%)	**83%**	**78%**	**77%**	**79%**

Source: Company data, Deutsche Bank estimates

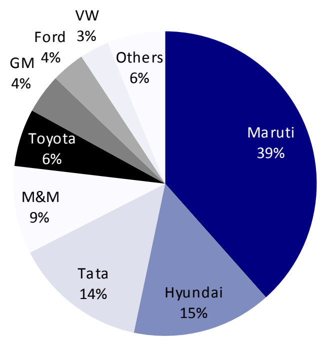
Competitive landscape: the jostling has finally begun in India

The Chinese market is one of the most fragmented markets in the world. Including foreign and domestic manufacturers, there are more than 60 brands competing in China. For global brands, General Motors (GM) and Volkswagen (VW) have the lion's share of the market because of their first-mover advantage, while Hyundai and Kia are keen challengers, with their combined market share ballooning from about 5% in 2008 to 8% in 2011 (at the expense of brands like Honda and Toyota).

In comparison, the Indian market is dominated by three brands – Maruti, Hyundai and Tata. However, this masks the dramatic increases in competitive intensity that India has witnessed over the last three years. During this period, most global manufacturers have targeted the high-volume hatchback car segment, typically with an India-specific offering. These include new entrants, such as VW and the Japanese incumbents (Honda, Toyota), who have been absent from the subcompact car segment.

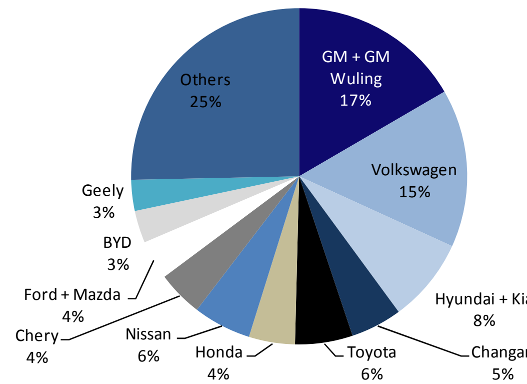
As a result of increasing competition in India, we are likely to see an incremental risk of margin pressure among the India automobile manufacturers going forward. Therefore, we do not view the historically less competitive nature of the Indian market as a sufficiently strong factor to derail our preference for the Chinese market.

Figure 32: India – passenger vehicle market share (FY12)



Source: SIAM. Deutsche Bank

Figure 33: China – passenger vehicle market share (CY11)



Source: CAAM, Deutsche Bank

Top picks Hyundai, Kia and Brilliance

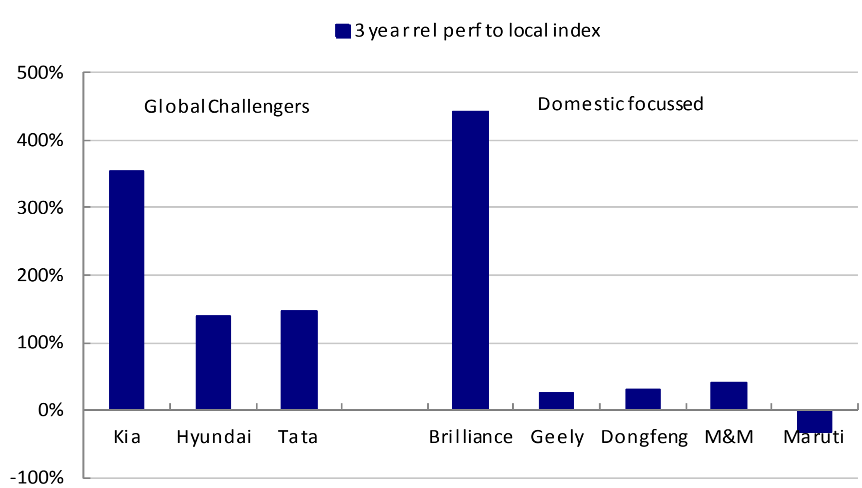
Key points

- Stock performance is based on more than market growth, and requires companies to be in the right segment.
- We like companies with the ability to win market share in decent-margin segments in China – our top picks are Hyundai, Kia and Brilliance, while we also like Dongfeng and Geely.
- Our earnings estimates are ahead of consensus for Korean companies, in line for Chinese autos, and below consensus on India.
- Korean autos trade at the widest discount to their local market, and Indian autos trade at a premium to their local market and Chinese autos trade on par with the local market.
- We therefore prefer Korean and Chinese auto stocks to Indian auto stocks.

Two categories of auto companies – global challengers and domestic consumption plays

Our Asian passenger vehicle OEM coverage can be divided into two categories: global market challengers (Hyundai, Kia, Tata Motors) and domestic market plays (Brilliance, Dongfeng, Geely, Maruti and Mahindra). In retrospect, the post-global-financial-crisis share price performance of global challengers has been significantly better than the domestic plays. They have expanded their addressable markets and product portfolios by offering compelling products in the most promising segments, underlining their market share gains. Brilliance's three-year outperformance largely reflects the impact of its restructuring, during which the loss-making local-brand sedan business was sold back to the parent and the companies have then been focusing in the rapidly expanding luxury car segment in China.

Figure 34: Auto OEMs' three-year relative price performance to local index



Source: Bloomberg Finance LP, Deutsche Bank

Auto stocks' performance – macro matters but micro is crucial

While macro drivers are useful to identify fast-growing countries or market niches, they may not be a reliable guide to identifying stock performance. We believe that successful manufacturers are those that can compete in the fast-growing segments with decent margins. Consider the case studies below.

Case study #1: strong share price performance of luxury thematic plays in China

In the past few years, demand for luxury cars in China has multiplied on the back of robust economic growth. Together with the high margins attached to sales of luxury cars, earnings of major global luxury car manufacturers from their China business have surged, and they are now a significant source of their total profit. Also, thanks to strong sales and earnings growth in the lucrative China luxury auto segment, the stock performances of luxury OEMs (BMW and Daimler) and, since then, Tata Motors, outshined their peers during the period. For instance, Tata's two-year performance (+31%) was driven largely by a jump in JLR sales in China, in our view, thus leading to an increase in China's share of its sales from 10% to 17%.

We think this case study supports our view that it is not just market level growth that drives performance, but that companies with a focus on the right segment in a market should outperform others.

Figure 35: Luxury auto OEMs – share price performance vs. China sales growth

	BMW (2009-11)	Daimler (2009-11)	Tata Motors (2011-12)
Trough share price (local currency)	17.70 (Jan-09)	17.43 (Mar-09)	139.60 (Sep-11)
Peak share price (local currency)	73.63 (Jul-11)	58.48 (Jan-11)	319.25 (Apr-12)
Share price appreciation	316.0%	235.5%	128.7%
China sales volume increase	156.9% (2011 vs. 2009)	184.3% (2011 vs. 2009)	61.0% (2011 vs. 2010)

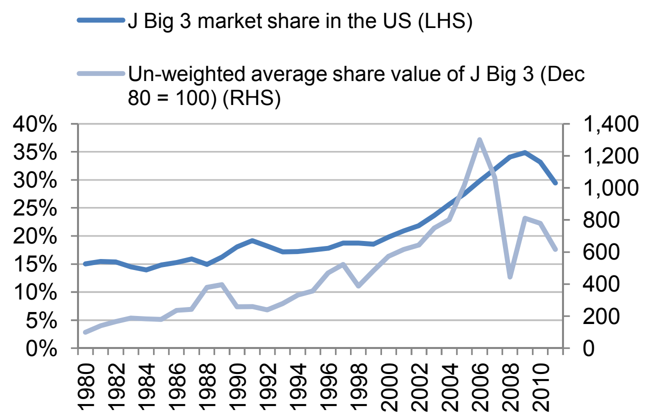
Source: Bloomberg Finance LP. Company data, Deutsche Bank

Case study #2: strong share price performance of Japanese auto OEMs since 1980s

In the late 1970s, Japanese auto OEMs took advantage of the global oil crisis by introducing fuel-efficient compact cars to the US market. Even though the US market had been relatively mature, with limited YoY growth, from 1980-2005, the Japanese Big Three (Toyota, Honda and Nissan) still achieved commendable sales growth, by increasing their market share from 15% to 28%. Together with the ability to sustain margins in the compact/mid-sized segments, their combined net profit catapulted from JPY432bn in FYMar88 to JPY2,487bn in FY06, and the Japanese Big 3 OEMs' share prices consequently rose by 157%, on average, between 1987 and 2005, vs. negative share price returns for the US Big 3 OEMs, as shown in the following charts.

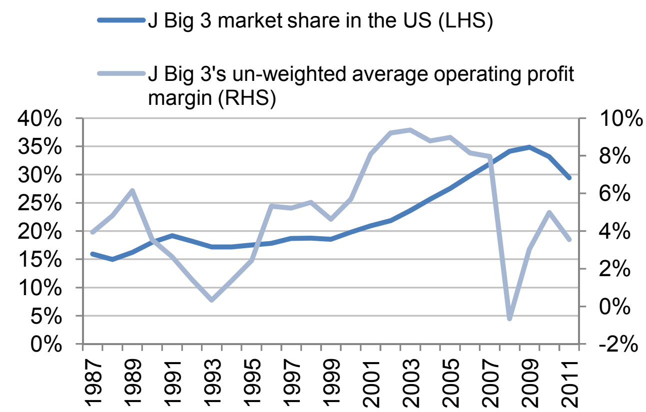
This supports our view that performance is driven by a focus on the right segment within the broader market. This is why we believe that the Chinese auto market, while likely to grow at a slightly slower pace than the Indian market in the medium to long term, still offers better opportunities for companies like Hyundai and Kia vs. the Indian market, considering the robust demand for compact cars in China's Tier 2/3 regions and the better margins.

Figure 36: Japanese Big 3 auto OEMs – US market share over share price appreciation



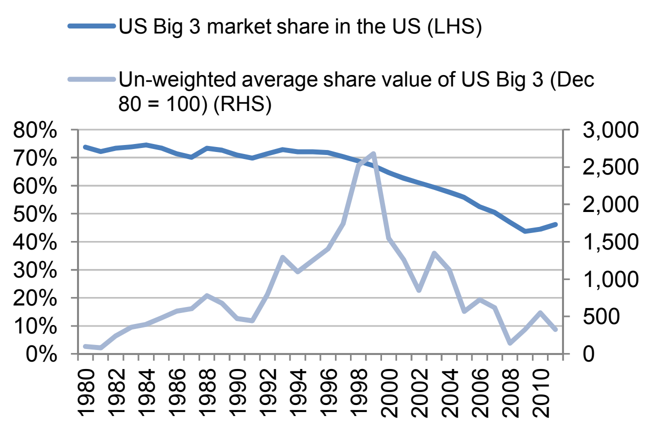
Source: Wards Auto, Bloomberg Finance LP, Deutsche Bank

Figure 37: Japanese Big 3 auto OEMs – US market share vs. operating profit margin



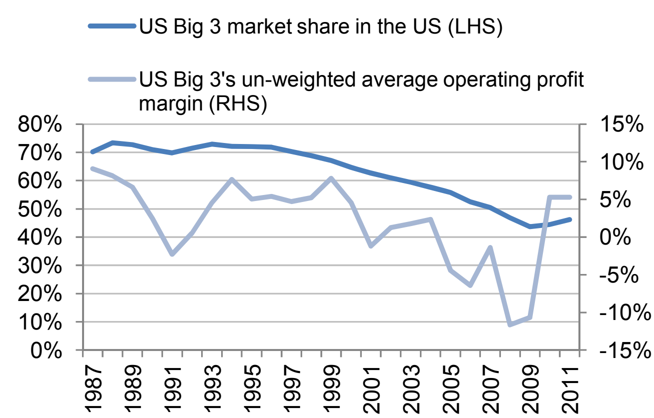
Source: Wards Auto, Company data, Deutsche Bank

Figure 38: US Big 3 auto OEMs – US market share over share price appreciation



Source: Wards Auto, Bloomberg Finance LP, Deutsche Bank

Figure 39: US Big 3 auto OEMs – US market share vs. operating profit margin



Source: Wards Auto, Company data, Deutsche Bank

We like companies with a focus on China's compact car and luxury car segments

As we remain optimistic about the medium-term growth and margin prospects of the Chinese auto market, we prefer auto manufacturers that are well positioned to gain market share in China's compact car and/or luxury car segments. Our top picks are Hyundai, Kia and Brilliance. We also have Buy recommendations on Dongfeng and Geely. Our expectations for their sales outperformance are outlined on Figure 40.

Figure 40: China PV sales for auto manufacturers with Buy recommendations

PV sales volume YoY%	2007	2008	2009	2010	2011	2012E	2013E	2014E
Industry average	**22%**	**7%**	**53%**	**33%**	**5%**	**10%**	**12%**	**11%**
Hyundai	-20%	27%	94%	23%	5%	11%	15%	12%
Kia	-12%	40%	70%	38%	30%	11%	6%	24%
Brilliance BMW	36%	9%	28%	57%	53%	39%	28%	19%
Dongfeng	29%	14%	46%	34%	16%	16%	17%	11%
Geely	10%	12%	60%	27%	1%	10%	15%	20%

Source: Company data, China Association of Automobile Manufacturers (CAAM), Deutsche Bank estimates

In Figure 41, we also compare sales growth, ASPs, margins and bottom-line growth for Chinese and India auto companies. In general, margins on higher ASP cars are better because these cars usually come with lots of options, features and functions not available in small cars. The marginal cost of adding these options/features in terms of tooling, labor and other fixed costs is usually not very high. Customers of higher ASP cars are also somewhat less price-sensitive and care more about differentiation. This allows car makers to charge higher ASPs, which results in higher margins.

The key takeaway from Figure 41 is that, even though the Chinese auto manufacturers may not have faster volume growth going forward vs. the Indian auto manufacturers, we still expect their margin and earnings growth to outperform those for the Indian manufacturers, given their better margin segmentation and higher ASPs. We did not include Hyundai and Kia in the following charts because the companies do not provide detailed financial breakdown by geography. However, we like these companies from the Chinese market perspective because 1) both of them derive close to 20% of sales from China and 2) we estimate that these companies will attain respectable EBIT margins from their Chinese businesses (e.g. 10-11% EBIT margin for Hyundai in recent years).

While we also expect Maruti Suzuki to deliver more than 20% earnings growth in FY13 and FY14, we do not prefer the name because its near-term growth prospects are driven mainly by a recovery in earnings from a low base in FY12. In the medium to long term, we expect the company’s profit growth to normalize to less attractive levels, with lower margins than its Chinese peers.

Figure 41: Chinese and Indian auto manufacturers – summary comparison

Sales volume (units)	CY08/FY09	CY09/FY10	CY10/FY11	CY11/FY12	CY12/FY13E	CY13/FY14E
Brilliance (BMW JV)	35,068	44,888	70,488	108,189	150,422	193,085
YoY%	*9%*	*28%*	*57%*	*53%*	*39%*	*28%*
Dongfeng (PV business)	727,392	1,058,811	1,418,091	1,646,410	1,905,277	2,223,065
YoY%	*14%*	*46%*	*34%*	*16%*	*16%*	*17%*
Geely	204,205	326,710	415,843	421,611	462,946	533,772
YoY%	*12%*	*60%*	*27%*	*1%*	*10%*	*15%*
China PV (m units)	**6.76**	**10.33**	**13.76**	**14.47**	**15.89**	**17.74**
YoY%	*7%*	*53%*	*33%*	*5%*	*10%*	*12%*
Mahindra & Mahindra (PV)	123,574	159,068	184,880	249,967	299,960	353,953
YoY%	*-7%*	*29%*	*16%*	*35%*	*20%*	*18%*
Maruti Suzuki	792,167	1,018,365	1,271,005	1,133,695	1,254,463	1,449,503
YoY%	*4%*	*29%*	*25%*	*-11%*	*11%*	*16%*
Tata	207,054	241,141	306,340	321,391	368,493	419,799
YoY%	*-10%*	*16%*	*27%*	*5%*	*15%*	*14%*
India PV (m units)	**1.55**	**1.95**	**2.50**	**2.62**	**2.87**	**3.18**
YoY%	*0.3%*	*26%*	*28%*	*5%*	*10%*	*11%*

ASP (USD)	CY08/FY09	CY09/FY10	CY10/FY11	CY11/FY12	CY12/FY13E	CY13/FY14E
Brilliance (BMW JV)	46,283	42,900	49,351	55,792	54,899	55,800
YoY%	*-2%*	*-7%*	*15%*	*13%*	*-2%*	*2%*
Dongfeng (PV business)	16,034	15,988	15,922	15,825	15,106	15,799
YoY%	*11%*	*0%*	*0%*	*-1%*	*-5%*	*5%*
Geely	5,848	5,841	6,776	7,322	7,747	8,282
YoY%	*10%*	*0%*	*16%*	*8%*	*6%*	*7%*
Mahindra & Mahindra (PV)	7,745	8,355	8,491	6,603	7,697	7,997
YoY%	*-19%*	*8%*	*2%*	*-22%*	*17%*	*4%*
Maruti Suzuki	5,266	6,111	6,358	5,768	7,258	7,628
YoY%	*-11%*	*16%*	*4%*	*-9%*	*26%*	*5%*
Tata	5,809	5,777	6,587	5,721	6,129	6,327
YoY%	*-14%*	*-1%*	*14%*	*-13%*	*7%*	*3%*

EBIT margin	CY08/FY09	CY09/FY10	CY10/FY11	CY11/FY12	CY12/FY13E	CY13/FY14E
Brilliance (BMW JV)	3.7%	5.1%	9.9%	9.2%	8.5%	8.6%
Dongfeng (PV business)	11.1%	12.5%	14.6%	12.9%	12.3%	12.1%
Geely	11.8%	12.0%	10.7%	11.5%	11.5%	11.6%
Mahindra & Mahindra (PV)	4.8%	11.0%	10.0%	8.2%	7.5%	7.3%
Maruti Suzuki	6.2%	10.6%	7.0%	3.9%	4.1%	4.4%
Tata	4.9%	8.5%	6.8%	4.7%	3.7%	4.0%

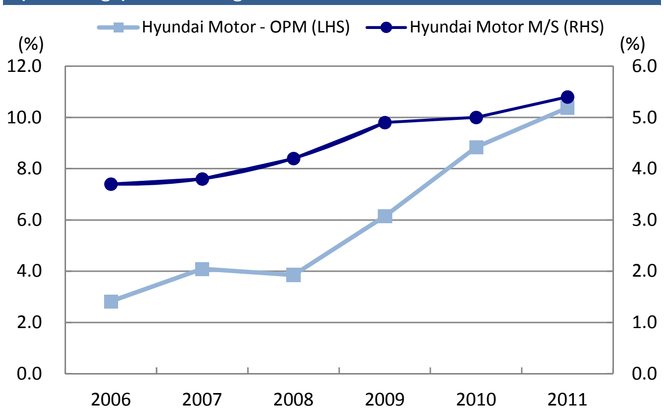
Net profit	CY08/FY09	CY09/FY10	CY10/FY11	CY11/FY12	CY12/FY13E	CY13/FY14E
Brilliance (RMBm)	81	-1,640	1,271	1,812	2,316	2,912
YoY%	*-17%*	*n.a.*	*n.a.*	*43%*	*28%*	*26%*
Dongfeng (RMBm)	3,955	6,250	10,981	10,481	10,857	12,848
YoY%	*5%*	*58%*	*76%*	*-5%*	*4%*	*18%*
Geely (RMBm)	879	1,183	1,368	1,543	1,908	2,283
YoY%	*191%*	*35%*	*16%*	*13%*	*24%*	*20%*
Mahindra & Mahindra (INRm)	10,638	21,105	25,446	27,706	28,682	31,921
YoY%	*12%*	*98%*	*21%*	*9%*	*4%*	*11%*
Maruti Suzuki (INRm)	14,029	25,111	22,338	16,351	20,285	24,708
YoY%	*-18%*	*79%*	*-11%*	*-27%*	*24%*	*22%*
Tata (INRm)	-22,702	10,006	89,031	143,480	138,262	140,189
YoY%	*n.a.*	*n.a.*	*790%*	*61%*	*-4%*	*1%*

Source: Company data, Deutsche Bank estimates

Korean autos: Hyundai and Kia posting quality growth

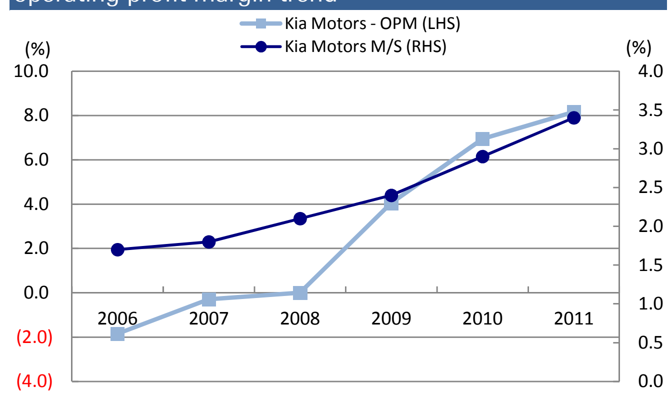
Among the regional auto makers, Korea's Hyundai and Kia reflect the rising market share dynamic (not only in China but also globally) and also the room for margin improvement due to enhancing production efficiency. These factors should drive stock outperformance. In 1H12, Kia's and HMC's global sales were up 11.6% and 12.4%, respectively, compared with global auto sales growth of 5.1%. We expect their combined market share to rise to 9.2% in 2012 and 9.4% in 2013, vs. 8.8% in 2011 and 7.9% in 2010, driven partly by their historical strength in the small car segment. Furthermore, we expect their margins to remain resilient amid market share expansion.

Figure 42: Hyundai – global market share vs. consolidated operating profit margin trend



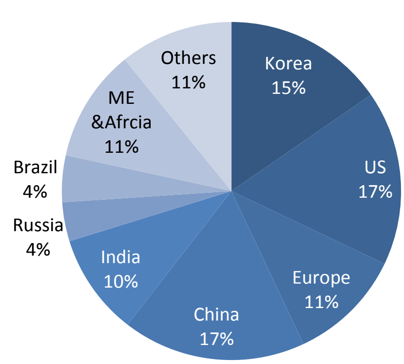
Source: Company data, Deutsche Bank

Figure 43: Kia – global market share vs. consolidated operating profit margin trend



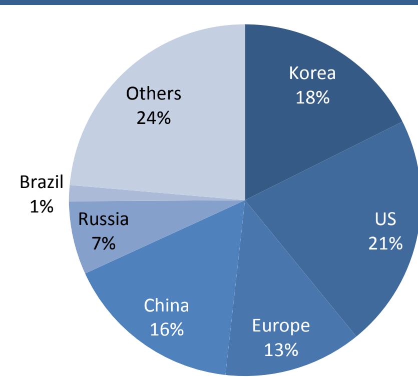
Source: Company data, Deutsche Bank

Figure 44: Hyundai Motor – global sales breakdown by region (1H12 YTD)



Source: Company data, Deutsche Bank

Figure 45: Kia Motors – global sales breakdown by region (1H12 YTD)

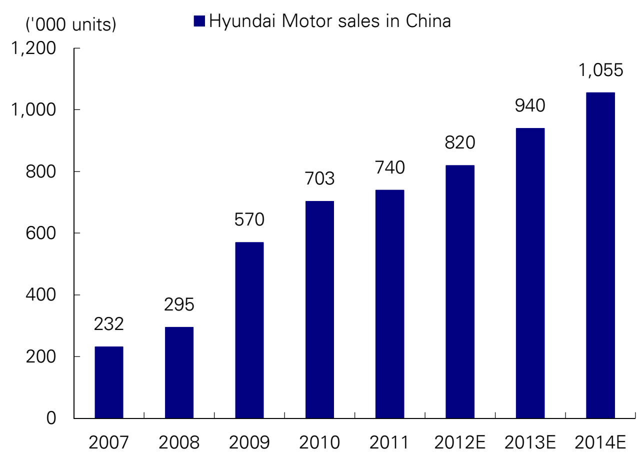


Source: Company data, Deutsche Bank

China accounts for 17-19% of Hyundai and Kia's global sales, and became the second-largest market for the two Korean automakers in 2011. In China, Hyundai and Kia's sales have registered a 34% and 44% CAGR, respectively, over the last four years (2007-11), compared with the industry CAGR of 25%, and their combined market share increased to 9.7% in 1H12, from 6.7% in 2007. Thanks to new capacity additions, we expect them to register 12.5% and 13% sales CAGRs, respectively, for the period 2012-15. Both are expanding capacity in China, expecting total market demand to increase, as we forecast.

We attribute Hyundai and Kia's stellar success in China to localization, frequent new model launches, with customization and a strong network of dealerships in Tier-2 and Tier-3 regions. Unlike some other automakers, Hyundai and Kia have developed a great knack for adapting designs of popular models in major markets to the needs of local customers, as is evident from the success of the Hyundai Santro and the i10 models in India, and the three different variants of Elantra sold in China. Hyundai is also planning to launch the extended wheel bases and long body versions of the Elantra and Santa Fe in China, as such cars are becoming more popular there. Most Hyundai and Kia models sold in China now have 80% local content, and automakers have doubled warranties on transmissions and engines in China to five years, which is nearly double the industry average. As a result, their reputation for reliability has risen in recent years.

Figure 46: Hyundai Motor – sales trend in China



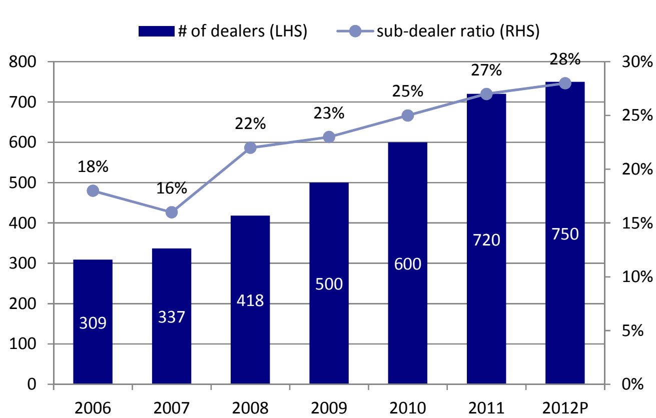
Source: Company data, Deutsche Bank estimates

Figure 47: Kia Motors – sales trend in China

Source: Company data, Deutsche Bank estimates

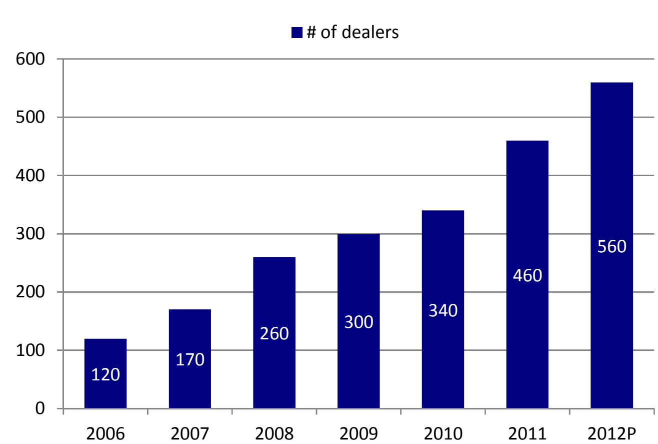
Moreover, Korean automakers have been very aggressive in ramping up their dealership networks in China, especially in Tier-2 and Tier-3 cities. Hyundai and Kia's total dealerships in China have registered 15% and 27% CAGRs, respectively, over the past seven years, resulting in a stellar sales growth.

Figure 48: Hyundai – number of dealers in China



Source: Company data, Deutsche Bank

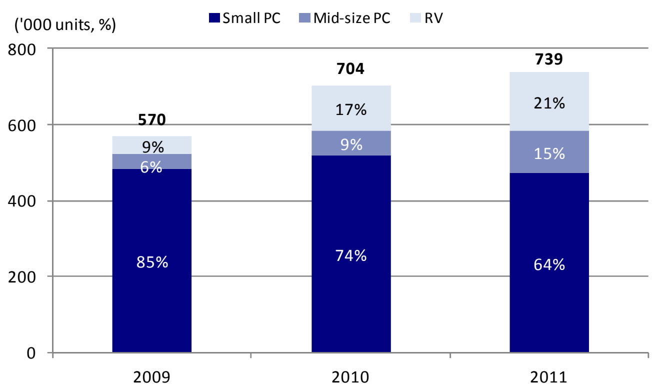
Figure 49: Kia – number of dealers in China



Source: Company data, Deutsche Bank estimate, P=provisional

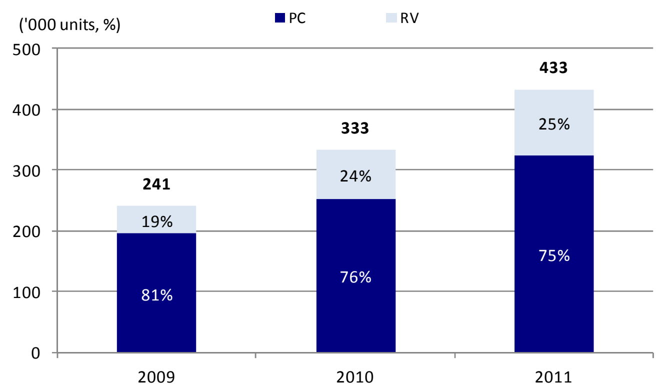
The Elantra, which is Hyundai's best-selling model in China (38% of the company's Chinese sales) and was customized for China, and the new MD Elantra, to be launched in 3Q, have been further customized to Chinese tastes. Similarly, Kia's K2, which has now become one of the top-five best-selling models in the subcompact segment, has been customized for China. We expect the launch of Hyundai's new Elantra MD in 3Q and Kia's K3 in 4Q to add momentum to the Korean automakers' sales in China. In the medium term, both automakers are planning to produce higher ASP models (Grandeur, K3, Santa Fe, etc.) at their new plants from 2013-14, which bodes very well for their profitability in these markets.

Figure 50: Hyundai – segmental sales volume breakdown in China



Source: Company data, Deutsche Bank

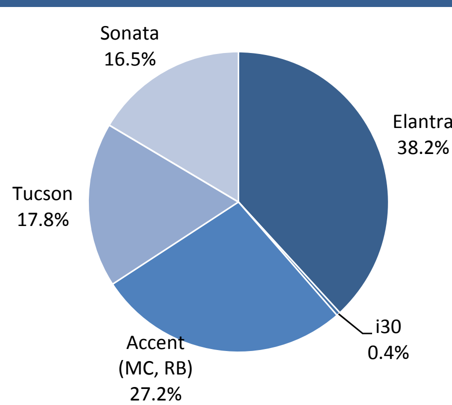
Figure 51: Kia – segmental sales volume breakdown in China



Source: Company data, Deutsche Bank

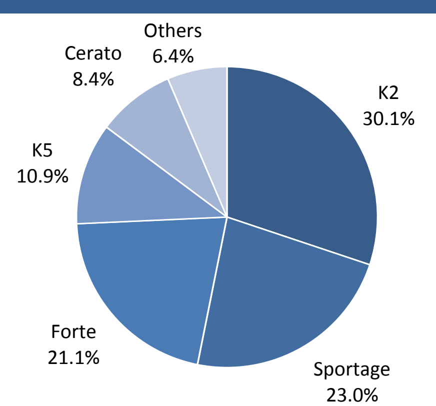
In terms of China's product mix, 60-70% of Hyundai and Kia's cars sold in China have 1.6L engines, for which demand has been particularly strong over the last three years. In addition, 35% of Hyundai's dealerships in China are now in small cities, and 40% in medium-sized cities. This is one of the highest penetration ratios among its peers, and should ensure that Hyundai will continue to see strong sales growth and improving brand loyalty. We believe that, given their very high factory utilization rates in China, Korean automakers are in a strong position to ride out a mild downturn.

Figure 52: Hyundai – 1H12 sales breakdown by models in China



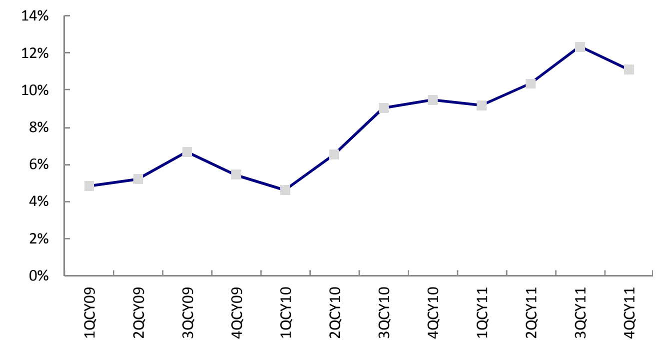
Source: Company data, Deutsche Bank

Figure 53: Kia – 1H12 sales breakdown by models in China



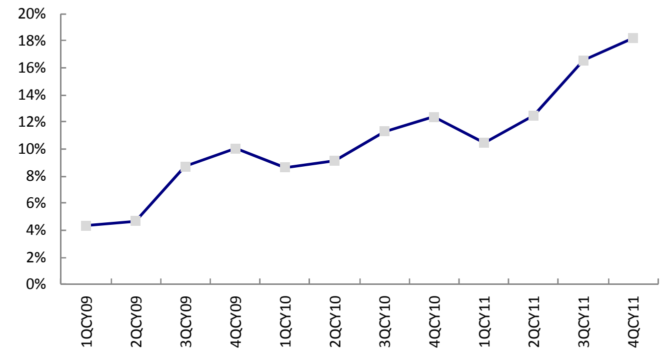
Source: Company data, Deutsche Bank

Figure 54: Hyundai – market share trend in China's higher-end subcompact car segment



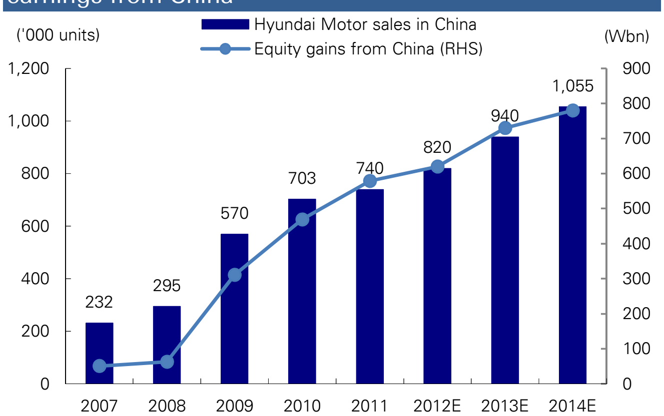
Source: CBU, Deutsche Bank

Figure 55: Kia – market share trend in China's higher-end subcompact car segment



Source: CBU, Deutsche Bank

Figure 56: Hyundai – China sales growth vs. equity earnings from China*



Source: Company data, Deutsche Bank estimates
** Excluding direct income from China, such as royalty fees*

Figure 57: Kia – China sales growth vs. equity earnings from China*

Source: Company data, Deutsche Bank estimates
** Excluding direct income from China, such as royalty fees*

For future expansion in China, Hyundai has just finished work on its third plant, with annual capacity of 300,000 units, which will be expanded to 400,000 units by the end of 2012. Kia has started work on its third 300,000-unit plant, which will be ready by 2014. As a result, the two automakers will have a combined production capacity of 1.74m units by 2014 (Hyundai 1.0m units, Kia 740,000 units). Given the long-term outlook for auto sales growth in China, we expect the two companies to announce further expansion plans in 2014-15, to maintain their market share.

Above all, when Hyundai and Kia are gaining market share in China and globally, they are not doing it at the expense of profitability (i.e. via measures such as irrational price cuts). This is proven by the fact that both companies have been growing their Chinese profits faster than their sales volume growth in China. For example, during 2007-11, although Hyundai and Kia's sales in China registered 34% and 44% CAGRs, respectively, the equity income from the Chinese operations delivered 80% and 130% CAGRs, respectively, highlighting the gains in profitability on the back of higher plant utilization, economies of scale, a sales mix improvement and general strength in market demand. Therefore, concerns on margin downside due to market share expansion seem to be misplaced, in our view.

Figure 58: Hyundai Motor – global capacity expansion plan

('000 units, %)	2004	2005	2006	2007	2008	2009	2010	2011	2012E	2013E	2014E	2015E
Domestic	1,760	1,760	1,760	1,760	1,820	1,820	1,820	1,820	1,870	1,870	1,870	1,870
China	200	300	300	300	400	500	600	600	900	1,000	1,000	1,000
India	250	250	250	400	500	600	600	600	600	600	600	600
Alabama, US		150	300	300	300	300	300	300	300	370	370	370
Turkey	60	60	60	100	100	100	100	100	100	100	200	200
Czech					20	200	200	300	300	300	300	300
Russia								150	220	220	250	300
Brazil									20	150	200	250
Total overseas (LHS)	510	760	910	1,100	1,320	1,700	1,800	2,050	2,440	2,740	2,920	3,020
Total overall	2,270	2,520	2,670	2,860	3,140	3,520	3,620	3,870	4,310	4,610	4,790	4,890
Overseas as a % of total	*22.5*	*30.2*	*34.1*	*38.5*	*42.0*	*48.3*	*49.7*	*53.0*	*56.6*	*59.4*	*61.0*	*61.8*
Overall growth (YoY, %)	*9.7*	*11.0*	*6.0*	*7.1*	*9.8*	*12.1*	*2.8*	*6.9*	*11.4*	*7.0*	*3.9*	*2.1*

Source: Company data, Deutsche Bank estimates

Figure 59: Kia Motors – global capacity expansion plan

('000 units, %)	2004	2005	2006	2007	2008	2009	2010	2011	2012E	2013E	2014E	2015E
Domestic	1,250	1,250	1,400	1,400	1,400	1,400	1,500	1,500	1,620	1,800	1,800	1,800
China	130	130	130	130	330	330	330	430	460	500	800	800
Slovakia			150	200	300	200	240	240	300	300	300	300
Georgia, US						200	200	260	360	360	360	360
New plant (undecided)												100
Total overseas	130	130	280	330	630	730	770	930	1,120	1,160	1,460	1,560
Total overall	1,380	1,380	1,680	1,730	2,030	2,130	2,270	2,430	2,740	2,960	3,260	3,360
Overseas as a % of total	*9.4*	*9.4*	*16.7*	*19.1*	*31.0*	*34.3*	*33.9*	*38.3*	*40.9*	*39.2*	*44.8*	*46.4*
Overall growth (YoY, %)	*15.0*	*0.0*	*21.7*	*3.0*	*17.3*	*4.9*	*6.6*	*7.0*	*12.8*	*8.0*	*10.1*	*3.1*

Source: Company data, Deutsche Bank estimates

Figure 60: Hyundai and Kia's new model launch schedules in key markets

Hyundai Motor - new model launch plan

	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13
Korea	Equus (F/L), Elantra coupe		Santa Fe (long body)			Genesis
US	Santa Fe, Avante coupe		Santa Fe (long body)	Equus-Facelift	Tucson-Facelift	
Europe	Santa Fe			Santa Fe (long body)	Tucson-Facelift	
China		New Elantra	New Santa Fe		Santa Fe (long body)	
India	Santa Fe	New Avante		New Santa Fe		
Brazil				B-segment new model		

Kia Motors - new model launch plan

	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13
Korea	K3, Sorento (F/L)	K-7 F/L	Soul, Carens	K-5 facelift		Sportage-Facelift
US	Sorento (F/L)		K3, K9,		Soul	K-5 facelift, K9
Europe		Ceed wagon	Carens		K-5 facelift	Sportage-Facelift, Soul
China		K3, K9				Sportage-Facelift, Soul
ROW			K-7 facelift			

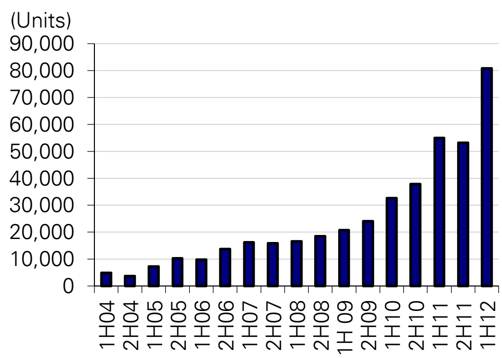
Source: Company data, Deutsche Bank

Brilliance, Dongfeng and Geely – suitably exposed to the fastest growth segments

For Hong Kong-listed Chinese auto manufacturers, we think Brilliance will be the prime beneficiary of the ever-increasing luxury car demand in China, whereas Dongfeng and Geely will remain solid players in the small car segment.

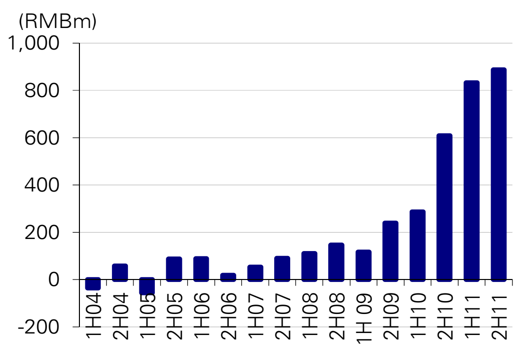
In the case of Brilliance, 90% of its profits come from the BMW JV, and hence it provides direct exposure to the Chinese luxury market. While investor sentiment is progressively weakening on the growth and profitability of Chinese luxury demand, it nevertheless remains the fastest-growing and most profitable country in the global luxury market. Moreover, Brilliance will also benefit from increasing local production of BMW models/engines and increasing localization of its component sourcing.

Figure 61: Brilliance BMW JV – half-year sales trend



Source: Company data, Deutsche Bank

Figure 62: Brilliance BMW JV – half-year net profit contribution to Brilliance



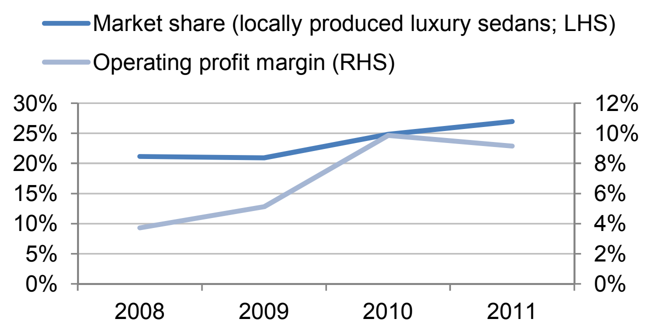
Source: Company data, Deutsche Bank

Dongfeng has been experiencing its PV market share expansion in China, mainly via one of its major JV partners, Nissan. This is because Nissan has a wide array of popular compact car products that benefit from the fast-growing demand of compact cars in China's Tier-2/3 regions. Since Nissan has had a decent sales track record in recent years, together with ambitious planning for the coming years, we are optimistic that Dongfeng's PV sales growth will stay above the market average.

Geely's market share in the small car segment has been stable over the years, despite intense competition. Going forward, we are still confident that Geely's market share will be well defended, considering its possession of proprietary technologies, which differentiate the company from other local peers.

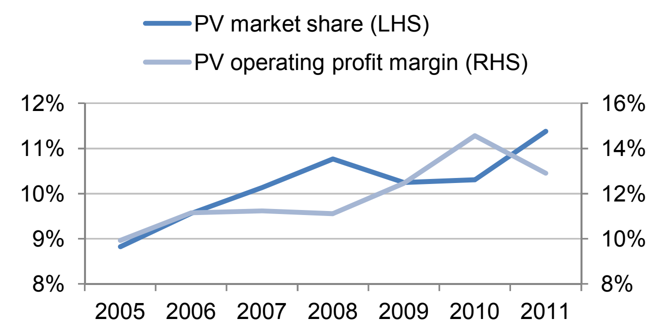
Similar to our observations for the Korean companies, our preferred Chinese auto manufacturers have also not sacrificed profitability to gain market share. Part of this is because they are focused on the right segment with the right products. As such, they can sell their popular models in large quantities and produce at higher capacity utilizations, and consequently their margins tend to be better than those companies losing market share, e.g. BYD.

Figure 63: Brilliance – market share vs. margin trend



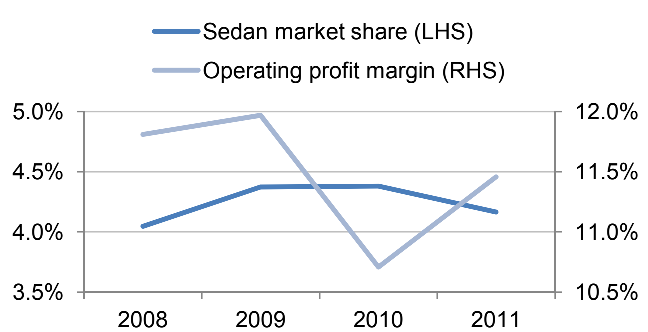
Source: Company data, Deutsche Bank

Figure 64: Dongfeng – market share vs. margin trend



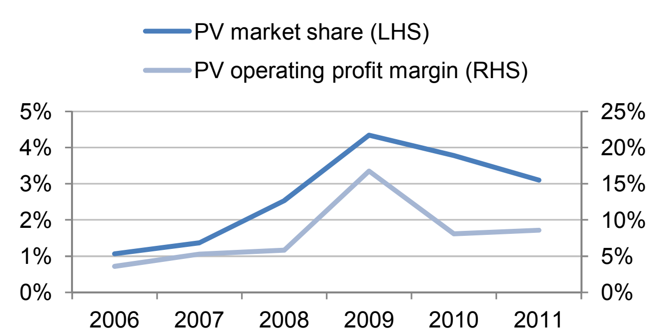
Source: Company data, Deutsche Bank

Figure 65: Geely – market share vs. margin trend



Source: Company data, Deutsche Bank

Figure 66: BYD – market share vs. margin trend



Source: Company data, Deutsche Bank

We are above consensus on Korea autos, in line for Chinese autos and below consensus on India

We believe the market is underestimating Hyundai and Kia's pricing improvement and market share gains in major markets, which could lead to earnings upside down the road. Our earnings estimates for Hyundai and Kia are 3-9% ahead of consensus for 2013-14. We believe the expected demand slowdown has yet to be fully reflected in street estimates for Indian autos. Our view on Chinese auto companies' growth prospect is in line with consensus.

Figure 67: Comparison of our estimates with consensus

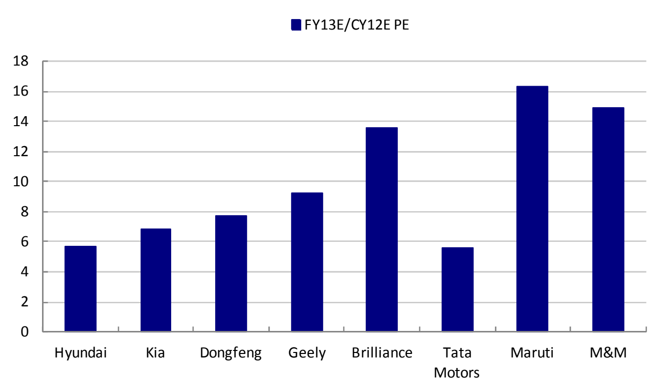
Company	FY13E/CY12E EPS			FY14E/CY13E EPS			Target price		
	DB est	Consensus	*Diff%*	DB est	Consensus	*Diff%*	DB est	Consensus	*Diff%*
China (in RMB)*									
Dongfeng Motor	1.26	1.30	*-3.4%*	1.49	1.45	*2.7%*	15.6	15.1	*3.3%*
Geely Auto	0.23	0.23	*0.9%*	0.27	0.27	*1.5%*	3.6	3.4	*7.1%*
Brilliance	0.46	0.46	*0.4%*	0.57	0.59	*-3.2%*	9.6	8.9	*8.4%*
Korea (in KRW)									
Hyundai Motors	41,796	39,619	*5.5%*	46,425	42,814	*8.4%*	325,000	317,460	*2.4%*
Kia Motors	11,179	11,211	*-0.3%*	12,711	12,371	*2.7%*	105,000	102,382	*2.6%*
India (in INR)									
Tata Motors	42.97	40.13	*7.1%*	43.57	44.65	*-2.4%*	250	292	*-14.4%*
Maruti Suzuki	70.19	72.65	*-3.4%*	85.49	95.88	*-10.8%*	1,100	1,274	*-13.6%*
Mahindra & Mahindra	46.72	48.64	*-3.9%*	51.99	56.10	*-7.3%*	750	785	*-4.4%*

Source: Bloomberg Finance LP, Deutsche Bank estimates * target prices for Dongfeng, Brilliance and Geely in HKD

Korean autos trade at the widest discount to their local market; Indian autos trade at a premium to their local market

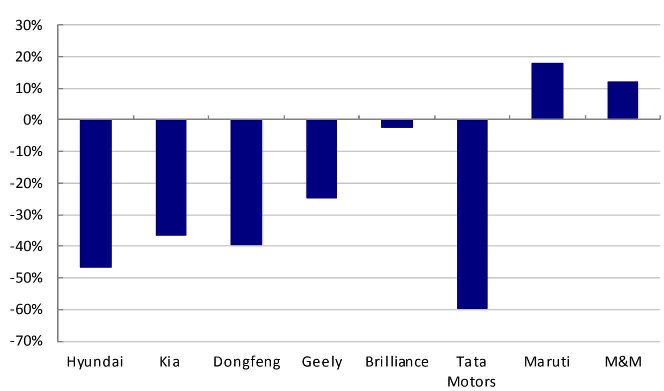
In lots of cases, auto stocks usually trade at a discount to their countries' indices, probably due to the market perception that the auto sector is highly competitive, with many brands vying for customers. Besides limited pricing power, due to competition, auto makers are also subject to revenue/cost fluctuations, due to FX rates and material prices. Hence, earnings can be volatile. Hyundai and Kia have traded at 35-45% discounts to the KOSPI over the last 18 months, and currently trade at discounts of 42% and 30%, respectively. Dongfeng has been trading at a discount of 10-30% to the HSI over the last 18 months, and currently trades at a discount of 31%. Geely significantly de-rated in 2011, but subsequently rerated in 2012, and currently trades at a marginal discount to the HSI. Among their regional peers, Indian autos are expensive, on both an absolute basis and relative to the local index. Mahindra and Maruti trade at 10-15% premiums to the Sensex currently.

Figure 68: Asia auto OEMs PE comparison



Source: Deutsche Bank estimates

Figure 69: Current PE discount/premium to domestic market



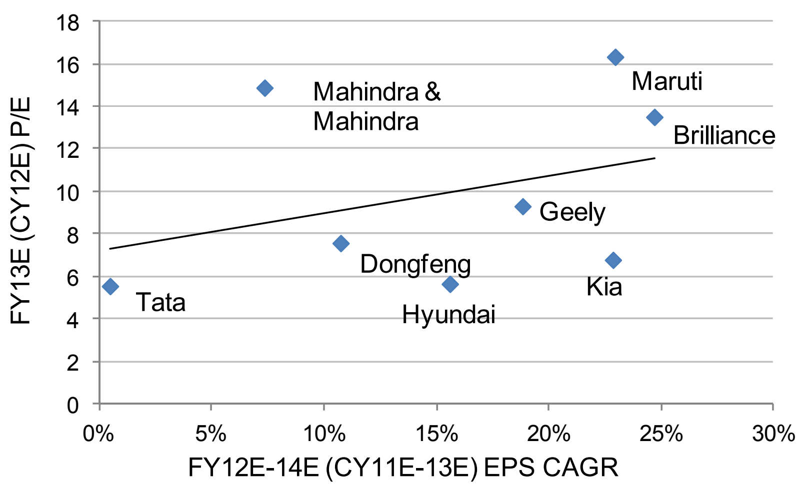
Source: Bloomberg Finance LP, Deutsche Bank estimates

We prefer Korean and Chinese auto stocks to Indian auto stocks

Our preference is based on these companies' sales momentum, driven by their segmental sales exposure, margin trend, EPS growth and valuation. Korean auto stocks are the cheapest within Asia, with reasonable EPS growth and stable trends in ROCE. Chinese stocks, particularly Brilliance, have very strong momentum in sales and EPS. Indian stocks exhibit low EPS growth and falling ROCE/ROE. We expect demand to moderate and competition to rise across all segments in India. We believe consensus estimates and target prices do not reflect the deteriorating outlook in India.

For the regional auto companies featured in this report, Hyundai and Kia appear to have the best value for earnings growth potential

Figure 70: P/E vs. growth comparison



Source: Reuters, Deutsche Bank estimates

We note that Geely looks cheaper than Brilliance on a P/E-to-growth basis, as shown in Figure 70. However, we still prefer Brilliance, due to its strongest EPS CAGR vs. its regional peers and its uniquely concentrated exposure (as an OEM) to China's luxury car segment. Tata also trades below the trend line and, on this basis, looks reasonably cheap. Nevertheless, we do not rank it as a top pick, due to its limited earnings growth potential.

If investors are interested in buying for long-term auto demand growth in India, our suggestion would be to Buy Suzuki (7269.T), given that the company will benefit from the growth of the Maruti Suzuki JV, as well as from the collection of royalty fees from the JV. Moreover, the valuation on an EV/EBITDA basis also looks attractive.

Our ladder of Buy preferences for the regional PV manufacturers is Hyundai, Kia, Brilliance, Dongfeng and Geely. For the India auto stocks, on which we have Hold recommendations, our ladder of preference is Mahindra, Maruti and Tata.

Figure 71: Deutsche Bank auto coverage universe – EPS and valuation summary

Company	Curr Price	Target price	Upside	Reco	EPS		EPS growth (%)		ROCE	PE	
					FY13E/ CY12E	FY14E/ CY13E	FY13E/ CY12E	FY14E/ CY13E	FY13E/ CY12E	FY13E/ CY12E	FY14E/ CY13E
China (in RMB)*											
Dongfeng	11.6	15.6	*34.3%*	Buy	1.3	1.5	*3.6%*	*18.4%*	*84.2%*	7.6	6.4
Geely	2.6	3.6	*41.2%*	Buy	0.2	0.3	*18.7%*	*18.9%*	*21.2%*	9.3	7.8
Brilliance	7.5	9.6	*27.8%*	Buy	0.5	0.6	*23.6%*	*25.7%*		13.5	10.7
Korea (in KRW)											
Hyundai	236,500	325,000	*37.4%*	Buy	41,796	46,425	*20.3%*	*11.1%*	*24.0%*	5.7	5.1
Kia	75,900	105,000	*38.3%*	Buy	11,179	12,711	*32.7%*	*13.7%*	*26.9%*	6.8	6.0
India (in INR)											
Tata Motors	239	250	4.7%	Hold	43.0	43.6	-0.5%	1.4%	35.7%	5.6	5.5
Maruti	1,147	1,100	-4.1%	Hold	70.2	85.5	24.1%	21.8%	19.7%	16.3	13.4
M&M	696	750	7.8%	Hold	46.7	52.0	3.5%	11.3%	23.2%	14.9	13.4

Source: Bloomberg, Finance LP, Deutsche Bank estimates *current price and target price for Dongfeng, Geely and Brilliance in HKD, Prices as of 7 Aug 2012

Figure 72: Investment summary of stocks covered in this report

Hyundai	• We expect Hyundai's global production capacity to expand to 4.79m units by 2014 from 3.87m units in 2011 (7.4% CAGR), which should give it long-term sales visibility. • Although Hyundai has been successful in narrowing the price gap with its top-tier global peers, we believe there exists further room to lower the price gap in major markets, and new model launches should help it do that. • 60% of Hyundai's sales come from emerging markets, where car penetration remains low and medium-term demand prospects are good. We expect the company to grow its market share in these markets.
Kia	• With new model launches in the profitable C, D and E segments, Kia is well positioned to raise its ASP and brand perception, which should eventually translate into higher margins. • Kia is targeting global sales of 3.5m units by 2016, vs. 2.78m units in 2012 (~25% growth). Kia is in the process of improving worker productivity at Korean plants and increasing synergies with Hyundai by way of platform sharing, which suggests upside potential to its margins. • Despite macro headwinds, Kia continues to do exceptionally well in major markets such as the US, the EU and China, and its global inventory, at 1.7 months, remains one of the lowest in the industry, and should result in less pricing pressure versus its peers.
Brilliance	• Soon-to-be-launched 3-series sedan to boost sales momentum. • At 14x 2012E PE, Brilliance is inexpensive, considering a 2011-14E 3-year EPS CAGR of 23%. • The stock's recent underperformance (3m -5% vs. HSI), likely on concerns of margin pressure from higher R&D expenditure, is overstated, in our view.
Dongfeng	• Dongfeng's 1H12 PV sales volume YoY growth of 21.6% is still considerably higher than the industry average. • We forecast a better 2H12 (on a YoY basis) due to the ramp-up of higher-price models (e.g. Dongfeng Nissan Sylphy sedan, Dongfeng Honda CRV SUV, and Dongfeng Honda Elysion MPV) and a gradual recovery in CV demand. • We remain conservative on margin forecasts. Trading at 8xCY12 PE vs. 2012-14E 2-year EPS CAGR of 11%.
Geely	• Profitability should be supported by 1) increasing sales of higher-margin Emgrand products and SUVs, 2) rising exports, 3) the introduction of in-house automatic transmission. • Starting FY14, we expect earnings contributions from the potential technology transfer with Volvo.
Mahindra	• Strong UV numbers (50% of EBIT), but we believe tractors likely to be weak in FY13. Margins likely to fall due to sales slowdown in tractors and competition in UVs and small CVs. • At 15xFY13E PE, it is close to fair value.
Tata Motors	• Slowdown in sales momentum domestically and in JLR. High ROCE but no EPS growth. ROCE likely to trend down with the rising investments in capex and R&D at JLR. • It appears inexpensive on a PE basis; however, its accounting of R&D overstates near-term profits and leads to lower headline PE. • Street likely underestimates impact of sales slowdown on profitability and valuation.
Maruti	• Strong EPS growth (2-year CAGR 45%) reflects a rebound from the trough in FY12. Despite the rebound, we expect Maruti's ROCE to trail its peers in the medium term. • In addition, valuations on an ex-cash basis stand at 26x/20x for FY13/14E – the highest for any auto stock in the region. • Margins could surprise on the upside in the near term due to better mix, despite poor sales volumes.

Source: Deutsche Bank estimates

Stocks' valuation methodology and company-specific risks

Hyundai Motor (TP KRW325,000, Buy)

Valuation. We apply a P/E of 8x 2012E vs. 8.5x of its historical trading average for the last four years. Our target price implies 22% ROE and an EBIT margin of 11.2% in 2012.

Risks. Key risks to our view are 1) lower-than-expected demand recovery in the developed and developing markets, 2) appreciating won (we believe that, as long as the KRW/USD exchange rate remains below the KRW1,100 level, Korean automakers should maintain their competitive edge), and 3) competition from Japanese automakers, which could dampen market share gains for Hyundai Motor, and 4) higher-than-expected losses from financial subsidiaries such as Hyundai Capital and Hyundai Card.

Kia Motors (TP KRW105,000, Buy)

Valuation. Our target price is based on 8x2013E P/E, which is close to the average P/E valuation of the global auto stocks under our coverage. Our target price of KRW105,000 implies an RoE of 29% and an EBIT margin of 9.4% in 2012.

Risks. Key risks are 1) a slower-than-expected demand recovery in the developed and developing markets, and 2) faster-than-expected appreciation of the won.

Brilliance China (TP HKD9.6, Buy)

Valuation. Our target price is based on a benchmark of 17x 2012E P/E, which is at a premium to the Chinese auto industry's long-term trading average of 11x. We believe our target price is fair because we expect Brilliance to report an exponential 2011-14 three-year earnings CAGR of 23%. In other words, the implied target P/E-to-growth ratio stands at 0.7x, which we believe is by no means stretched.

Risks. Key risks are 1) weaker-than-expected demand for luxury cars in China could negatively affect Brilliance BMW's profitability given the significant increase in capacity, and 2) almost all luxury auto brands are considering China as among the most important markets with ambitious sales and production plans; therefore, there could be risks of over-supply, especially if the exponential growth is somehow de-railed; if this happens, competition within the segment could intensify.

Dongfeng Motor (TP HKD15.6, Buy)

Valuation. We value Dongfeng at a 2012E P/E of 10x, above its own historical average forward P/E but at a slight discount to the long-term China auto sector average of 11x. We believe this is justified because Dongfeng has consistently delivered solid sales volume growth and margin resilience. Moreover, we expect an 11% 2011-14 three-year EPS CAGR. On a forward P/BV basis, our target price implies a 2012 P/BV of 2.0x, which appears justified given the company's sustainable ROE of about 20%,, on our estimates.

Risks. Key risks are 1) a much weaker-than-expected performance of the CV business in 2012 and an unexpected dissipation in the company's PV sales momentum, perhaps caused by prolonged weakness in Chinese auto consumption sentiment, and 2) any weaker-than-expected PV sales could pose a threat to Dongfeng's margins, given that new capacities are due to be added in the coming years.

Geely Auto (TP HKD3.6, Buy)

Valuation. Our target price for Geely is based on 13x 2012E P/E, at a slight premium to the stock's long-term historical average and the Chinese auto sector's long-term average. We believe our target price is appropriate because we expect Geely to report a solid 2011-14 three-year fully diluted EPS CAGR of 22%. On a P/BV basis, our target price implies 2012E P/BV of 1.9x, which we believe is still justified given a sustainable ROE of about 20%, on our estimates.

Risks. Key risks are 1) weak reception of the new models, owing to strong local brand competition, 2) pricing pressure from peers and 3) the inability to maintain margins.

Mahindra & Mahindra (TP INR750, Hold)

Valuation. M&M's subsidiaries have significant value, and hence we use an SOTP-based approach to derive our target price. We value the core parent business on a DCF basis, which implies a multiple of 15x FY13E EPS. We value the listed subsidiaries by applying a 20% holding-company discount to the subsidiary's valuation (based on market cap). We also attribute a value to its 100% subsidiary, MVML, and a negative equity value to its two-wheeler and truck subsidiaries. This provides our overall target price/share.

Risks. Key upside risk is revival in tractor volumes. Key downside risk is slower-than-expected ramp-up in XUV and Maxximo models.

Maruti Suzuki (TP INR1,100, Hold)

Valuation. Our target price is DCF-based, and we use a 15-year timeframe for our DCF forecasts (Rf 6.0%, Rm 8.5%, WACC 13.2% and 4.0% terminal growth rate, in line with the likely growth rate of the number of households in India), and implies 15.5x FY13E EPS.

Risks. Upside risks are 1) better-than-expected volume growth and significant depreciation of the JPY (costs equivalent to c.27% of revenues are denominated in JPY), and 2) model mix is also a major determinant of profitability for Maruti; if industry growth is higher and Maruti is able to claw back market share faster, it could pose an upside risk to our earnings estimates. Downside risks are 1) a slowdown in demand for diesel cars, 2) and a further increase in competitive intensity; if the JPY continues to appreciate, this would have a negative impact on Maruti's earnings, and 3) prolonged labor trouble at the Manesar plant.

Tata Motors (TP INR250, Hold)

Valuation. We value Tata Motors on a sum-of-the-parts (SOTP) basis. We use EV/EBITDA as our relative valuation metric to value the operating businesses (India and Jaguar Land Rover), as the company's profitability, growth and cash flow profile are still in a transformation phase. We partition Tata Motors' financials into an India-based business and a global luxury car business (Jaguar Land Rover). The comparable peers for its global business include European manufactures such as BMW and Daimler. Our target price is made up of a 6x FY13E EV/EBITDA for the India-based business, 3x FY13E EV/EBITDA for JLR and Rs 5/share for the vehicle financing business. Our valuation for the India-based business is slightly lower than Tata Motors' historical average. Our valuation for JLR is at a premium to the current valuation of its European peers. This translates into 3.6x FY13E EV/EBITDA on a consolidated basis.

Risks. Upside risks are 1) better-than-expected JLR volumes (especially in China), and 2) higher-than-expected CV volume growth in India. Downside risks are 1) lower-than-expected ramp-up in Evoque volumes, and 2) a sharper-than-expected decline in Indian CV demand.

Auto market risks

China

Better-than-expected auto purchase sentiment from early 2012

We expect 2H12 Chinese vehicle sales growth to gradually improve. If the macroeconomic environment rebounds faster than expected and boosts consumer sentiment, we could easily see faster vehicle sales growth, given that more capacity will be available to support growth.

Apart from this, the Chinese government considers the auto sector to be one of the pillar sectors in China. Any new extra stimulus measures besides those already disclosed, such as additional support for local brands, would lead to an acceleration in growth.

Prolonged tightening in the Chinese economy

As we currently expect 2H12 China vehicle sales growth to pick up with possible macro policy loosening, if the macroeconomic environment remains weak for a longer-than-expected period, vehicle sales might remain depressed for the full year.

With more capacity available in 2012, a slowdown in sales would lead to more serious inventory pile-up concerns and could possibly be followed by more severe price cuts. This would inevitably hurt margins.

India

Smaller-than-expected demand revival for cars

PV volumes grew only 4.6% in FY12E, due to capacity constraints for diesel engines (especially for market-leader Maruti) and a prolonged strike at one of Maruti's plants, which accounts for c10% of industry capacity. We are forecasting a revival in FY13 (+10% YoY,) as capacity constraints have eased. However, our forecasts could be at risk if the demand for gasoline models (50% of volumes) continues to be weak on account of elevated gasoline prices.

Overcapacity of diesel engines could hurt pricing power and margins

Customers' preference for diesel models has enabled manufacturers to avoid giving incentives, and hence they earn significantly higher margins on these models. Currently, there is a waiting period for most diesel models, as demand has outpaced supply. However, all manufacturers are increasing their capacity, which could result in over-supply, and ultimately lead to a loss of pricing power, and impair margins.

Higher commodity prices and INR depreciation

While prices of commodities like steel and aluminum have softened in recent months, the benefit has been entirely offset by significant INR depreciation (10% against the USD and 15% against the JPY) since the beginning of FY12. For Maruti, costs equal to 27% of sales are denominated in JPY.

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Company pages

Rating
Buy

Asia
Korea, Republic of

Automobiles & Components

Company
Hyundai Motor

Reuters	Bloomberg
005380.KS	005380 KS

Price at 7 Aug 2012 (KRW)	236,500
Price target - 12mth (KRW)	325,000
52-week range (KRW)	268,500 - 161,500
KOSPI	1,886.80

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Growth in China to resume after new plant and ongoing mix improvement

Benefiting from demand growth in emerging markets, mix improvement

Hyundai posted a sales CAGR of 10% during 2007-11 and although we expect it to slow down to 7.6% in 2012-14E, it should be offset by ASP improvement as a result of new models, higher brand recognition and a rising portion of sales from high-end cars. 60% of Hyundai's sales come from emerging markets, where car penetration remains low and offer ample opportunities for mix improvement especially in China. We reiterate our Buy call.

Global capacity expansion CAGR of 7% to support the strong demand

Hyundai started production at its new 300K unit plant in China last month, which will later be extended to 400K units. Hyundai is planning to introduce a third shift at its US plant in September, which will increase its US production capacity by 23% or 70K units in 2013. Its new 150K unit plant in Brazil will be operational by November and it plans to double its production capacity in Turkey to 200K units by the end of 2013. It is also aiming to raise production from Korean plants by improving labor productivity. As such, we expect Hyundai's global production capacity to reach 4.79m units by 2014, up from 3.87m units in 2011 (7% CAGR), which should give it long-term sales visibility.

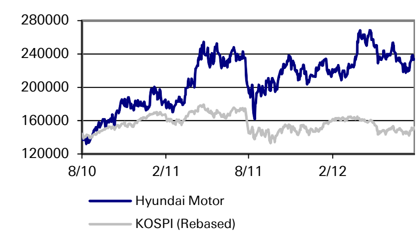
Room for further price increases in global markets

Although Hyundai has been successful in narrowing the price gap to top tier global peers, we believe there exists further room to reduce the gap. In the Chinese market, where Hyundai faces capacity constraints, it has been successful in improving its product mix whereby high-margin D segment cars now account for 34% of total sales vs. 26% in 2010 and low-margin C segment cars now account for 67% of the total vs. 74% in 2010. We expect revenue and ASP mix improvement to continue to drive its earnings in 2012-14E.

Maintaining Buy with a target price of W325,000

We maintain Buy on the stock with a target price of W325,000 based on 8.0x12E PE. Key risks: a strong won and lower-than-expected sales globally.

Price/price relative



Performance (%)	1m	3m	12m
Absolute	2.8	-8.2	15.9
KOSPI	1.5	-3.6	-2.9

Stock data	
Market cap (KRWbn)	52,000
Market cap (USDm)	46,065
Shares outstanding (m)	219.9
Major shareholders	Hyundai Mobis (16%)
Free float (%)	74
Avg daily value traded (USDm)	123.509

Key indicators (FY1)	
ROE (%)	22.1
Net debt/equity (%)	76.7
Book value/share (KRW)	208,909
Price/book (x)	1.13
Net interest cover (x)	506.8
Operating profit margin (%)	11.2

Forecasts And Ratios

Year End Dec 31	2010A	2011A	2012E	2013E	2014E
Sales (KRWbn)	66,985	77,798	85,528	92,656	100,525
EBITDA (KRWbn)	8,101	10,410	12,061	13,129	14,236
Reported NPAT (KRWbn)	5,567.1	7,655.9	9,206.7	10,225.9	11,048.9
DB EPS FD (KRW)	25,273	34,756	41,796	46,423	50,164
DB EPS growth (%)	–	37.5	20.3	11.1	8.1
PER (x)	5.6	6.1	5.7	5.1	4.7
EV/EBITDA (x)	6.4	6.4	5.8	5.1	4.4
DPS (net) (KRW)	1,500	1,800	2,000	2,200	2,200
Yield (net) (%)	1.1	0.8	0.8	0.9	0.9

Source: Deutsche Bank estimates, company data

[1] DB EPS is fully diluted and excludes non-recurring items
[2] Multiples and yields calculations use average historical prices for past years and spot prices for current and future years, except P/B which uses the year end close

Model updated:07 August 2012

Running the numbers

Asia

Korea, Republic of

Automobiles & Components

Hyundai Motor

Reuters: 005380.KS   Bloomberg: 005380 KS

Buy

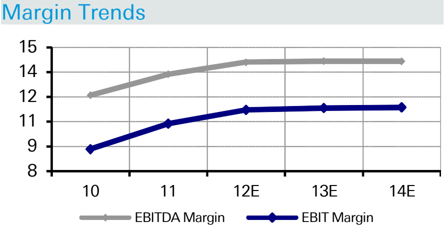
Price (7 Aug 12)	KRW 236,500
Target Price	KRW 325,000
52 Week range	KRW 161,500 - 268,500
Market Cap (bn)	KRWm 52,000
	USDm 46,065

Company Profile

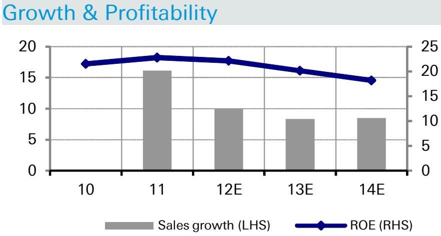
Hyundai Motors manufactures and sells passenger cars, recreational vehicles, and commercial vehicles in Korea and abroad. In addition to its plants in Korea, the company has production facilities in China, India, and the Czech Republic. HMC has the largest market share in the Korean market and around 5% market share in the US market.

Price Performance

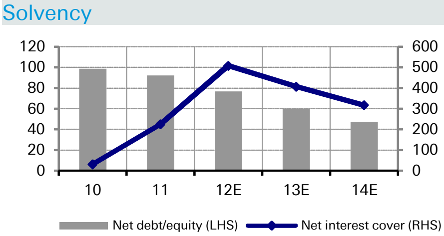
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Dec	2010	2011	2012E	2013E	2014E
Financial Summary					
DB EPS (KRW)	25,273.37	34,755.72	41,796.13	46,423.23	50,163.67
Reported EPS (KRW)	25,273.37	34,755.72	41,796.13	46,423.23	50,159.13
DPS (KRW)	1,500.00	1,800.00	2,000.00	2,200.00	2,200.00
BVPS (KRW)	136,636.4	168,483.9	208,909.4	252,177.0	299,503.0
Weighted average shares (m)	220	220	220	220	220
Average market cap (KRWbn)	31,145	46,742	52,000	52,000	52,000
Enterprise value (KRWbn)	51,970	66,130	70,307	66,308	62,113
Valuation Metrics					
P/E (DB) (x)	5.6	6.1	5.7	5.1	4.7
P/E (Reported) (x)	5.6	6.1	5.7	5.1	4.7
P/BV (x)	1.27	1.26	1.13	0.94	0.79
FCF Yield (%)	nm	7.3	3.5	8.8	9.1
Dividend Yield (%)	1.1	0.8	0.8	0.9	0.9
EV/Sales (x)	0.8	0.9	0.8	0.7	0.6
EV/EBITDA (x)	6.4	6.4	5.8	5.1	4.4
EV/EBIT (x)	8.8	8.2	7.3	6.3	5.4
Income Statement (KRWbn)					
Sales revenue	66,985	77,798	85,528	92,656	100,525
Gross profit	17,902	21,230	23,412	25,463	27,555
EBITDA	8,101	10,410	12,061	13,129	14,236
Depreciation	1,568	1,596	1,677	1,761	1,849
Amortisation	615	738	795	878	964
EBIT	5,918	8,075	9,589	10,490	11,424
Net interest income(expense)	-192	-36	-19	-26	-36
Associates/affiliates	1,682	2,404	2,843	3,207	3,399
Exceptionals/extraordinaries	0	0	0	0	0
Other pre-tax income/(expense)	83	4	112	244	333
Profit before tax	7,492	10,447	12,526	13,916	15,120
Income tax expense	1,490	2,342	2,816	3,127	3,441
Minorities	434	449	503	563	631
Other post-tax income/(expense)	0	0	0	0	0
Net profit	5,567	7,656	9,207	10,226	11,049
DB adjustments (including dilution)	0	0	0	0	1
DB Net profit	5,567	7,656	9,207	10,226	11,050
Cash Flow (KRWbn)					
Cash flow from operations	-5,944	6,024	4,887	7,962	8,553
Net Capex	-1,677	-2,630	-3,085	-3,358	-3,809
Free cash flow	-7,622	3,395	1,802	4,605	4,744
Equity raised/(bought back)	170	213	0	0	0
Dividends paid	-317	-412	-480	-588	-674
Net inc/(dec) in borrowings	-7,392	4,742	1,592	-1,909	1,795
Other investing/financing cash flows	16,796	-702	-773	-60	-84
Net cash flow	1,635	7,236	2,141	2,047	5,781
Change in working capital	*5,045*	*-1,037*	*-2,800*	*-355*	*-384*
Balance Sheet (KRWbn)					
Cash and other liquid assets	6,216	6,232	6,851	7,422	8,053
Tangible fixed assets	18,514	19,548	20,956	22,612	24,713
Goodwill/intangible assets	2,652	2,660	2,793	2,933	3,079
Associates/investments	36,608	46,829	51,678	55,671	60,048
Other assets	30,724	34,211	40,124	43,577	47,397
Total assets	94,714	109,480	122,402	132,214	143,290
Interest bearing debt	38,596	43,339	44,930	43,021	41,226
Other liabilities	23,230	25,814	27,848	29,786	32,077
Total liabilities	61,826	69,152	72,778	72,807	73,303
Shareholders' equity	30,098	37,113	46,023	55,555	65,981
Minorities	2,790	3,215	3,600	3,852	4,007
Total shareholders' equity	32,888	40,328	49,623	59,407	69,987
Net debt	*32,380*	*37,107*	*38,079*	*35,599*	*33,173*
Key Company Metrics					
Sales growth (%)	nm	16.1	9.9	8.3	8.5
DB EPS growth (%)	na	37.5	20.3	11.1	8.1
EBITDA Margin (%)	12.1	13.4	14.1	14.2	14.2
EBIT Margin (%)	8.8	10.4	11.2	11.3	11.4
Payout ratio (%)	5.9	5.2	4.8	4.7	4.4
ROE (%)	21.5	22.8	22.1	20.1	18.2
Capex/sales (%)	2.5	3.4	3.6	3.7	3.9
Capex/depreciation (x)	0.8	1.1	1.2	1.3	1.4
Net debt/equity (%)	98.5	92.0	76.7	59.9	47.4
Net interest cover (x)	30.8	224.4	506.8	406.1	316.5

Source: Company data, Deutsche Bank estimates

Rating
Buy

Asia
Korea, Republic of

Automobiles & Components

Company
Kia Motors

Reuters	Bloomberg
000270.KS	000270 KS

Price at 7 Aug 2012 (KRW)	75,900
Price target - 12mth (KRW)	105,000
52-week range (KRW)	83,800 - 59,000
KOSPI	1,886.80

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Capacity expansion, model launches, room for margin improvement

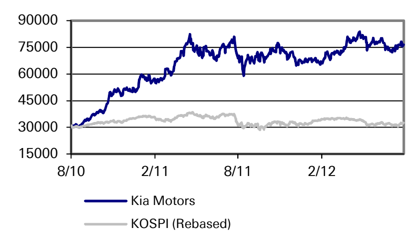
Upside to Kia's margins on productivity improvement and synergies with HMC
With new model launches in the profitable C, D and E segments, Kia is well positioned to raise its ASP and brand perception, which should eventually translate into higher margins. Kia posted a sales CAGR of 17% during 2008-11 and although we expect it to slow down to 8% during 2012-14E, overall OP margin should remain robust. Kia is in the process of improving worker productivity at Korean plants and increasing synergies with Hyundai by way of platform sharing, which means upside to its margins.

New model pipeline to continue to drive sales in overseas markets
Despite macro headwinds, Kia continues to do exceptionally well in major markets such as the US, EU and China and its global inventory, at 1.8 months, remains one of the lowest in the industry. Attractive new model launches with superior design competitiveness, which contributed to Kia's sales success over the last three years, are expected to continue in 2012-13. Kia recently launched the luxury sedan K-9 in the domestic market and Ceed in the European market. It will launch its K-3 sedan in 3Q12 and is likely to launch the new Soul and Carnival in 2013, which should keep its sales momentum going.

Expecting sales CAGR of 6.6% during 2012-16E
Kia is targeting global sales of 3.5m units by 2016 vs. 2.71m units in 2012 (~27% growth). Given its existing capacity expansion plans in China and Korea, we believe it will need another 200K unit production plant to meet its mid-term sales target. Although a final decision on the location is has yet to be made, the US and Brazil appear to be the most likely candidates. Kia is focusing on improving UPH at Korean plants to boost production capacity and expects Korean plant capacity to reach 1.8m units by the end of 2013 (+12% YoY).

Maintaining Buy with a target price of W105,000
We maintain our target price at W105,000 based on 8x13E PE. Key risks to our call are: 1) lower-than-expected demand, and 2) KRW appreciation.

Price/price relative



Performance (%)	1m	3m	12m
Absolute	3.0	-6.2	4.3
KOSPI	1.5	-3.6	-2.9

Stock data	
Market cap (KRWbn)	30,740
Market cap (USDm)	27,231
Shares outstanding (m)	405.0
Major shareholders	Hyundai Motor (38.7%)
Free float (%)	53
Avg daily value traded (USDm)	85.639

Key indicators (FY1)	
ROE (%)	29.0
Net debt/equity (%)	6.1
Book value/share (KRW)	43,704
Price/book (x)	1.74
Net interest cover (x)	121.8
Operating profit margin (%)	9.4

Forecasts And Ratios

Year End Dec 31	2010A	2011A	2012E	2013E	2014E
Sales (KRWbn)	35,827	43,191	49,509	54,378	58,730
EBITDA (KRWbn)	3,418	4,516	5,724	6,430	7,004
Reported NPAT (KRWbn)	2,682.1	3,415.6	4,531.9	5,153.3	5,678.6
DB EPS FD (KRW)	6,742	8,425	11,179	12,712	14,008
DB EPS growth (%)	–	25.0	32.7	13.7	10.2
PER (x)	4.8	8.2	6.8	6.0	5.4
EV/EBITDA (x)	4.9	6.5	5.6	4.6	3.8
DPS (net) (KRW)	500	600	800	1,000	1,090
Yield (net) (%)	1.5	0.9	1.1	1.3	1.4

Source: Deutsche Bank estimates, company data

[1] DB EPS is fully diluted and excludes non-recurring items
[2] Multiples and yields calculations use average historical prices for past years and spot prices for current and future years, except P/B which uses the year end close

Model updated:07 August 2012

Running the numbers

Asia

Korea, Republic of

Automobiles & Components

Kia Motors

Reuters: 000270.KS Bloomberg: 000270 KS

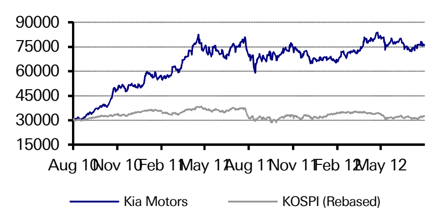
Buy

Price (7 Aug 12)	KRW 75,900
Target Price	KRW 105,000
52 Week range	KRW 59,000 - 83,800
Market Cap (bn)	KRWm 30,740
	USDm 27,231

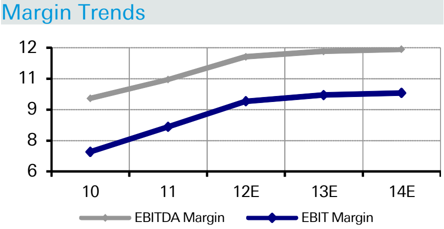
Company Profile

Kia Motors manufactures and sell passenger cars, recreational vehicles, and commercial vehicles in Korea and overseas. The company has plants in Korea, China, and Solvakia and a network of distributors and dealers covering 165 countries.

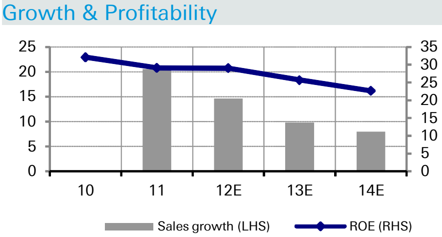
Price Performance



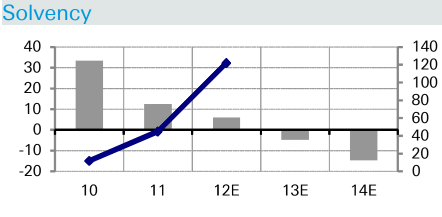
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Dec	2010	2011	2012E	2013E	2014E
Financial Summary					
DB EPS (KRW)	6,741.51	8,425.30	11,179.00	12,711.95	14,007.65
Reported EPS (KRW)	6,741.51	8,425.30	11,179.00	12,711.95	14,007.65
DPS (KRW)	500.00	600.00	799.97	1,000.05	1,089.98
BVPS (KRW)	25,092.7	33,325.0	43,704.0	55,418.4	68,336.0
Weighted average shares (m)	398	405	405	405	405
Average market cap (KRWbn)	12,964	27,881	30,740	30,740	30,740
Enterprise value (KRWbn)	16,652	29,570	31,821	29,684	26,674
Valuation Metrics					
P/E (DB) (x)	4.8	8.2	6.8	6.0	5.4
P/E (Reported) (x)	4.8	8.2	6.8	6.0	5.4
P/BV (x)	2.02	2.00	1.74	1.37	1.11
FCF Yield (%)	25.9	4.3	2.0	8.1	12.1
Dividend Yield (%)	1.5	0.9	1.1	1.3	1.4
EV/Sales (x)	0.5	0.7	0.6	0.5	0.5
EV/EBITDA (x)	4.9	6.5	5.6	4.6	3.8
EV/EBIT (x)	6.7	8.4	6.8	5.6	4.6
Income Statement (KRWbn)					
Sales revenue	35,827	43,191	49,509	54,378	58,730
Gross profit	8,783	10,966	12,907	14,266	15,466
EBITDA	3,418	4,516	5,724	6,430	7,004
Depreciation	693	696	751	811	876
Amortisation	235	295	319	344	372
EBIT	2,490	3,525	4,654	5,275	5,756
Net interest income(expense)	-212	-79	-38	68	82
Associates/affiliates	982	1,337	1,354	1,462	1,612
Exceptionals/extraordinaries	0	0	0	0	0
Other pre-tax income/(expense)	64	-61	72	-24	22
Profit before tax	3,323	4,722	6,043	6,781	7,472
Income tax expense	625	1,202	1,511	1,627	1,793
Minorities	16	104	0	0	0
Other post-tax income/(expense)	0	0	0	0	0
Net profit	2,682	3,416	4,532	5,153	5,679
DB adjustments (including dilution)	0	0	0	0	0
DB Net profit	2,682	3,416	4,532	5,153	5,679
Cash Flow (KRWbn)					
Cash flow from operations	4,666	2,812	2,393	4,210	5,480
Net Capex	-1,312	-1,616	-1,765	-1,723	-1,763
Free cash flow	3,355	1,196	627	2,487	3,718
Equity raised/(bought back)	60	42	0	0	0
Dividends paid	-97	-199	-243	-324	-405
Net inc/(dec) in borrowings	-3,922	-720	118	-1,679	-2,600
Other investing/financing cash flows	360	1,023	270	791	590
Net cash flow	-245	1,342	771	1,275	1,302
Change in working capital	*1,841*	*-495*	*-2,083*	*-825*	*-29*
Balance Sheet (KRWbn)					
Cash and other liquid assets	2,924	3,938	4,663	5,121	5,531
Tangible fixed assets	8,564	9,184	10,198	11,230	12,117
Goodwill/intangible assets	1,362	1,517	999	1,027	1,062
Associates/investments	6,110	8,137	9,625	10,966	12,845
Other assets	7,316	7,478	8,268	9,136	9,925
Total assets	26,275	30,255	33,753	37,480	41,480
Interest bearing debt	6,347	5,627	5,744	4,065	1,465
Other liabilities	9,680	11,119	10,291	10,949	12,312
Total liabilities	16,027	16,745	16,035	15,014	13,777
Shareholders' equity	9,983	13,510	17,717	22,466	27,703
Minorities	265	0	0	0	0
Total shareholders' equity	10,248	13,510	17,717	22,466	27,703
Net debt	*3,423*	*1,689*	*1,082*	*-1,056*	*-4,066*
Key Company Metrics					
Sales growth (%)	nm	20.6	14.6	9.8	8.0
DB EPS growth (%)	na	25.0	32.7	13.7	10.2
EBITDA Margin (%)	9.5	10.5	11.6	11.8	11.9
EBIT Margin (%)	7.0	8.2	9.4	9.7	9.8
Payout ratio (%)	7.4	7.1	7.2	7.9	7.8
ROE (%)	32.1	29.1	29.0	25.6	22.6
Capex/sales (%)	3.7	3.7	3.6	3.4	3.0
Capex/depreciation (x)	1.4	1.6	1.6	1.6	1.4
Net debt/equity (%)	33.4	12.5	6.1	-4.7	-14.7
Net interest cover (x)	11.7	44.8	121.8	nm	nm

Source: Company data, Deutsche Bank estimates

Rating
Buy

Asia
China

Automobiles & Components

Company
Brilliance China

Reuters	Bloomberg
1114.HK	1114 HK

Price at 7 Aug 2012 (HKD)	7.51
Price target - 12mth (HKD)	9.60
52-week range (HKD)	10.34 - 5.45
HANG SENG INDEX	20,073

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Good proxy for strong luxury car demand in China; Buy

Benefiting from BMW's solid reception and increasing localization
Brilliance is the only Hong Kong-listed Chinese auto manufacturer exposed to the fast-growing luxury car segment. As BMW's exclusive manufacturing JV partner, it benefits from the brand's ever-increasing ~25% luxury car market share, and it will out-grow BMW's overall expansion in China with the introduction of more locally-produced models. What is more, there is still room for margin enhancement, given increasing component localization. The stock is therefore among our Asia ex-Japan auto top Buys.

Year-to-date sales continue to be robust
In 1H12, Brilliance BMW sales volume grew 47% YoY, ahead of the 31% YoY growth for BMW/Mini overall. This is due to the introduction of the X1 SUV into the local production line-up and the continued strong reception for the 5-series sedans. Although there is news flow regarding heavy discounting for luxury car brands, this relates more to high-end luxury car imports, in which Brilliance is not involved, and the entry-level models like the old generation 3-series sedans, which Brilliance BMW has ceased to produce.

New BMW 3-series will be the driver of 2H12E/FY13E earnings growth
BMW China has started selling the new 3-series, including both the regular wheelbase and the long wheelbase versions. Judging from our channel check, the reception has been solid so far and there is unlikely to be much discounting. While the market is also worried about margin pressure due to increasing capacity, and initiatives to develop EVs and local brands under the JV, we think that the margin risk is overstated, as the market may be overlooking the leeway for further production cost cuts via raising component localization from the current 50% level, and the start of engine assembly in China. In the long run, contract manufacturing of other BMW models for overseas markets is also an option to utilize the JV's new capacity.

Premium valuation justified by 23% FY11-14E three-year earnings CAGR
We value Brilliance's stock at a premium of 17x FY12E P/E (ahead of the sector's 11x long-term average), while the implied P/E-to-growth ratio of 0.7x does not look demanding. Downside risks: luxury car sales slowing down in China and ongoing price pressure.

Price/price relative

Performance (%)	1m	3m	12m
Absolute	10.0	-7.7	-22.5
HANG SENG INDEX	1.4	-2.3	-4.2

Stock data	
Market cap (HKDm)	37,706
Market cap (USDm)	4,862
Shares outstanding (m)	5,020.8
Major shareholders	Huachen Auto (45%)
Free float (%)	55
Avg daily value traded (USDm)	13.7

Key indicators (FY1)	
ROE (%)	28.4
Net debt/equity (%)	38.1
Book value/share (CNY)	1.85
Price/book (x)	3.3
Net interest cover (x)	0.5
Operating profit margin (%)	1.4

Forecasts And Ratios

Year End Dec 31	2010A	2011A	2012E	2013E	2014E
Sales (CNYm)	8,948.7	6,442.9	5,674.2	6,312.3	6,888.0
Reported NPAT (CNYm)	1,270.9	1,812.3	2,316.4	2,912.0	3,472.8
DB EPS FD (CNY)	0.26	0.37	0.46	0.57	0.68
DB EPS growth (%)	–	42.9	23.6	25.7	19.3
PER (x)	12.5	17.3	13.5	10.7	9.0

Source: Deutsche Bank estimates, company data

[1] DB EPS is fully diluted and excludes non-recurring items
[2] Multiples and yields calculations use average historical prices for past years and spot prices for current and future years, except P/B which uses the year end close

Model updated:28 June 2012

Running the numbers

Asia

China

Automobiles & Components

Brilliance China

Reuters: 1114.HK — Bloomberg: 1114 HK

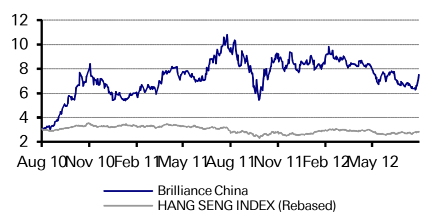
Buy

Price (7 Aug 12)	HKD 7.51
Target Price	HKD 9.60
52 Week range	HKD 5.45 - 10.34
Market Cap (m)	HKDm 37,706
	USDm 4,862

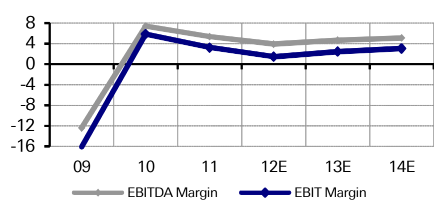
Company Profile

Brilliance China Automotive Holdings Limited, through its subsidiaries and JVs, manufactures and distributes minibuses and sedans in the People's Republic of China. The company also manufactures and trades automotive components.

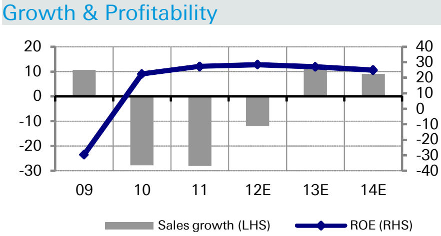
Price Performance



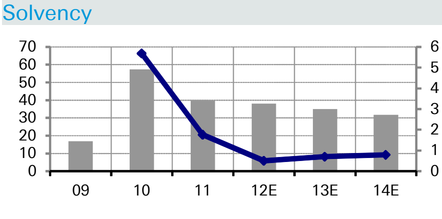
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Dec	2009	2010	2011	2012E	2013E	2014E
Financial Summary						
DB EPS (CNY)	-0.16	0.26	0.37	0.46	0.57	0.68
Reported EPS (CNY)	-0.36	0.25	0.36	0.46	0.57	0.68
DPS (CNY)	0.00	0.00	0.00	0.00	0.00	0.00
BVPS (CNY)	1.0	1.3	1.4	1.9	2.4	3.1
Weighted average shares (m)	4,480	4,993	4,998	5,021	5,021	5,021
Average market cap (CNYm)	3,996	16,205	31,973	30,955	30,955	30,955
Enterprise value (CNYm)	-1,254	11,666	27,567	24,800	22,436	19,490
Valuation Metrics						
P/E (DB) (x)	nm	12.5	17.3	13.5	10.7	9.0
P/E (Reported) (x)	nm	12.9	17.8	13.5	10.7	9.0
P/BV (x)	1.92	4.08	5.00	3.33	2.53	1.97
FCF Yield (%)	nm	4.9	nm	nm	nm	nm
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0	0.0
EV/Sales (x)	-0.1	1.3	4.3	4.4	3.6	2.8
EV/EBITDA (x)	nm	17.6	80.2	112.7	76.5	55.6
EV/EBIT (x)	nm	22.3	133.7	305.4	146.8	93.4
Income Statement (CNYm)						
Sales revenue	12,390	8,949	6,443	5,674	6,312	6,888
Gross profit	852	1,363	993	877	980	1,072
EBITDA	-1,537	663	344	220	293	350
Depreciation	330	109	108	108	108	107
Amortisation	131	30	30	31	33	34
EBIT	-1,998	523	206	81	153	209
Net interest income(expense)	-161	-92	-117	-163	-218	-265
Associates/affiliates	376	1,066	1,912	2,352	2,940	3,497
Exceptionals/extraordinaries	-920	-33	-51	0	0	0
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	-2,703	1,465	1,949	2,270	2,875	3,441
Income tax expense	41	-54	58	-12	-10	-8
Minorities	-1,104	248	79	-34	-27	-23
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	-1,640	1,271	1,812	2,316	2,912	3,473
DB adjustments (including dilution)	920	33	51	0	0	0
DB Net profit	-719	1,303	1,864	2,316	2,912	3,473
Cash Flow (CNYm)						
Cash flow from operations	1,009	1,180	-628	-262	-203	-174
Net Capex	-1,024	-385	-607	-375	-400	-400
Free cash flow	-15	795	-1,235	-637	-603	-574
Equity raised/(bought back)	495	3	9	0	0	0
Dividends paid	0	0	0	0	0	0
Net inc/(dec) in borrowings	-1,363	104	509	765	765	689
Other investing/financing cash flows	1,249	-2,083	874	-128	-141	-155
Net cash flow	365	-1,181	158	0	21	-40
Change in working capital	*2,331*	*-1,834*	*-650*	*-332*	*-288*	*-268*
Balance Sheet (CNYm)						
Cash and other liquid assets	1,609	428	586	586	607	566
Tangible fixed assets	1,411	1,651	1,734	2,001	2,293	2,586
Goodwill/intangible assets	164	185	156	125	92	58
Associates/investments	4,589	6,482	6,131	8,611	11,692	15,345
Other assets	3,693	4,474	4,163	4,046	4,354	4,649
Total assets	11,465	13,220	12,769	15,368	19,038	23,204
Interest bearing debt	2,240	3,439	3,063	3,828	4,593	5,282
Other liabilities	5,496	4,524	3,511	3,062	3,082	3,109
Total liabilities	7,736	7,964	6,573	6,890	7,675	8,392
Shareholders' equity	5,022	6,325	6,989	9,306	12,218	15,690
Minorities	-1,293	-1,069	-752	-786	-813	-837
Total shareholders' equity	3,729	5,257	6,237	8,520	11,404	14,854
Net debt	*631*	*3,012*	*2,477*	*3,242*	*3,987*	*4,716*
Key Company Metrics						
Sales growth (%)	10.7	-27.8	-28.0	-11.9	11.2	9.1
DB EPS growth (%)	-561.9	na	42.9	23.6	25.7	19.3
EBITDA Margin (%)	-12.4	7.4	5.3	3.9	4.6	5.1
EBIT Margin (%)	-16.1	5.8	3.2	1.4	2.4	3.0
Payout ratio (%)	nm	0.0	0.0	0.0	0.0	0.0
ROE (%)	-29.6	22.4	27.2	28.4	27.1	24.9
Capex/sales (%)	8.3	4.8	9.5	6.6	6.3	5.8
Capex/depreciation (x)	2.2	3.1	4.4	2.7	2.9	2.8
Net debt/equity (%)	16.9	57.3	39.7	38.1	35.0	31.7
Net interest cover (x)	nm	5.7	1.8	0.5	0.7	0.8

Source: Company data, Deutsche Bank estimates

Rating
Buy

Asia
China

Automobiles & Components

Company
Dongfeng Motor

Reuters	Bloomberg
0489.HK	489 HK

Price at 7 Aug 2012 (HKD)	11.62
Price target - 12mth (HKD)	15.60
52-week range (HKD)	15.68 - 8.98
HANG SENG INDEX	20,073

Solid presence in China's growing compact car segment; Buy

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Benefiting from its JV brands' compact segment market share gain

Dongfeng is among the largest Chinese auto manufacturers and has well-diversified businesses and successful JVs with Nissan, Honda and PSA. Going forward, its broad product line-up should help the company to wade through market cycles with limited, if any, earnings disappointment, and that Nissan's strong market position in China's small car segment will help Dongfeng to secure its market-leading penetration growth into inland regions. As such, we reiterate our Buy recommendation.

Consistent passenger vehicle (PV) sales outperformance year-to-date

Despite milder auto sales growth in China, Dongfeng still reported January-July PV sales volume growth of 20% YoY, with double-digit increases at both Nissan and Honda JVs on solid new model reception (e.g., the Dongfeng Nissan Venucia and the Dongfeng Honda CRV). This should help allay market concerns about margin risk triggered by new capacity additions since the JVs are still producing at high utilization.

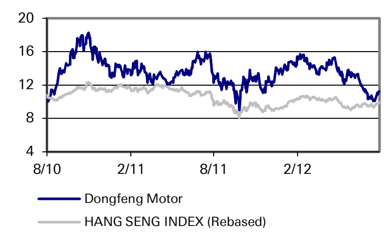
Ongoing margin pressure exists on pricing and product mix, but manageable

While investors also worry about price discounting and weaker sales at Dongfeng's mid-to-high-end segment in 1H12, we expect the situation to improve in 2H12, with a sales ramp-up of higher-margin models like Nissan Sylphy, Honda CRV and Elysion. In the longer run, there could be a better product mix supported by the new Nissan Teana launch in FY13 and Infiniti's luxury products launch in FY14. For the commercial vehicle segment, we also expect Dongfeng's sales volume (1H12 down 19% YoY) to improve in 2H12.

Still attractively valued on P/E, P/BV and EV/EBITDA basis

We set our target valuation at 10x FY12E P/E, below the long-term sector average of 11x. Our target P/E can be justified by the company's 11% FY11-14E three-year earnings CAGR. The implied target P/BV of 2.0x also seems justified given the company's c. 20% sustainable ROE. Key risks to our view are weak new-model reception and higher-than-expected margin pressure.

Price/price relative



Performance (%)	1m	3m	12m
Absolute	1.2	-14.7	-14.4
HANG SENG INDEX	1.4	-2.3	-4.2

Stock data	
Market cap (HKDm)	100,119
Market cap (USDm)	12,911
Shares outstanding (m)	8,616.1
Major shareholders	Dongfeng Motor (67%)
Free float (%)	33
Avg daily value traded (USDm)	24.5

Key indicators (FY1)	
ROE (%)	21.3
Net debt/equity (%)	-65.6
Book value/share (CNY)	6.44
Price/book (x)	1.5
Net interest cover (x)	–
Operating profit margin (%)	10.0

Forecasts And Ratios

Year End Dec 31	2010A	2011A	2012E	2013E	2014E
Sales (CNYm)	122,395.0	131,441.0	138,747.6	162,635.2	179,673.5
EBITDA (CNYm)	17,822.0	16,444.0	17,336.7	20,567.1	22,933.1
Reported NPAT (CNYm)	10,981.0	10,481.0	10,857.2	12,855.5	14,384.1
DB EPS FD (CNY)	1.27	1.22	1.26	1.49	1.67
DB EPS growth (%)	75.7	-4.6	3.6	18.4	11.9
PER (x)	8.4	9.0	7.6	6.4	5.7
EV/EBITDA (x)	3.6	3.9	2.7	2.0	1.4
Yield (net) (%)	1.7	1.7	2.1	2.7	3.2

Source: Deutsche Bank estimates, company data

[1] DB EPS is fully diluted and excludes non-recurring items
[2] Multiples and yields calculations use average historical prices for past years and spot prices for current and future years, except P/B which uses the year end close

Model updated:06 August 2012

Running the numbers

Asia

China

Automobiles & Components

Dongfeng Motor

Reuters: 0489.HK Bloomberg: 489 HK

Buy

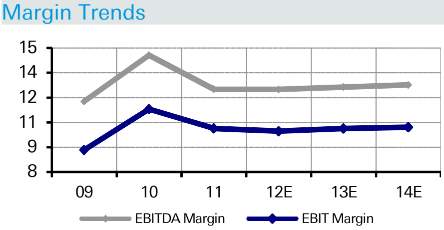
Price (7 Aug 12)	HKD 11.62
Target Price	HKD 15.60
52 Week range	HKD 8.98 - 15.68
Market Cap (m)	HKDm 100,119
	USDm 12,911

Company Profile

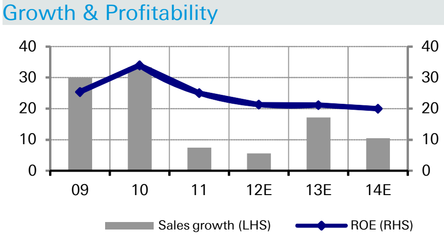
Dongfeng is one of China's largest three auto manufacturers. The company's major businesses include the manufacture of whole serial commercial vehicles, passenger vehicles, auto parts and components, as well as vehicle manufacturing equipment. It has JV partnerships with Honda, Nissan and Peugeot.

Price Performance

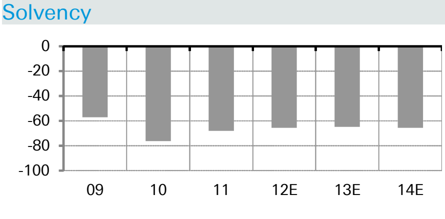
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Dec	2009	2010	2011	2012E	2013E	2014E
Financial Summary						
DB EPS (CNY)	0.73	1.27	1.22	1.26	1.49	1.67
Reported EPS (CNY)	0.73	1.27	1.22	1.26	1.49	1.67
DPS (CNY)	0.09	0.18	0.18	0.20	0.25	0.30
BVPS (CNY)	3.2	4.4	5.4	6.4	7.7	9.1
Weighted average shares (m)	8,616	8,616	8,616	8,616	8,616	8,616
Average market cap (CNYm)	53,289	92,512	93,948	82,193	82,193	82,193
Enterprise value (CNYm)	39,096	64,851	63,466	46,969	40,652	32,393
Valuation Metrics						
P/E (DB) (x)	8.5	8.4	9.0	7.6	6.4	5.7
P/E (Reported) (x)	8.5	8.4	9.0	7.6	6.4	5.7
P/BV (x)	3.11	2.68	2.05	1.48	1.24	1.05
FCF Yield (%)	31.2	16.6	3.9	7.0	9.5	12.3
Dividend Yield (%)	1.5	1.7	1.7	2.1	2.7	3.2
EV/Sales (x)	0.4	0.5	0.5	0.3	0.2	0.2
EV/EBITDA (x)	3.6	3.6	3.9	2.7	2.0	1.4
EV/EBIT (x)	4.8	4.7	4.8	3.4	2.5	1.8
Income Statement (CNYm)						
Sales revenue	91,758	122,395	131,441	138,748	162,635	179,673
Gross profit	17,484	26,362	26,390	27,645	32,236	35,636
EBITDA	10,794	17,822	16,444	17,337	20,567	22,933
Depreciation	2,689	3,985	3,114	3,493	4,077	4,578
Amortisation	0	0	0	0	0	0
EBIT	8,105	13,837	13,330	13,844	16,490	18,355
Net interest income(expense)	109	450	652	784	981	1,203
Associates/affiliates	195	296	379	417	467	514
Exceptionals/extraordinaries	0	0	0	0	0	0
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	8,409	14,583	14,361	15,045	17,938	20,071
Income tax expense	1,671	3,006	3,401	3,686	4,485	5,018
Minorities	488	596	479	502	598	669
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	6,250	10,981	10,481	10,857	12,856	14,384
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	6,250	10,981	10,481	10,857	12,856	14,384
Cash Flow (CNYm)						
Cash flow from operations	20,774	17,903	9,216	15,786	18,819	21,576
Net Capex	-4,124	-2,503	-5,572	-10,000	-11,000	-11,500
Free cash flow	16,650	15,400	3,644	5,786	7,819	10,076
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-530	-898	-2,644	-1,987	-2,481	-2,920
Net inc/(dec) in borrowings	2,857	-2,500	-701	-3,525	-2,115	-1,269
Other investing/financing cash flows	-2,029	23	1,196	1,195	1,282	1,442
Net cash flow	16,948	12,025	1,495	1,469	4,504	7,328
Change in working capital	*6,102*	*-2,343*	*-1,447*	*-482*	*-1,625*	*-1,172*
Balance Sheet (CNYm)						
Cash and other liquid assets	29,379	41,404	42,899	44,368	48,872	56,200
Tangible fixed assets	19,457	19,799	23,263	29,770	36,693	43,615
Goodwill/intangible assets	2,480	2,773	3,001	3,001	3,001	3,001
Associates/investments	1,488	2,743	2,978	3,371	3,985	4,559
Other assets	32,885	43,903	45,392	46,521	52,350	54,729
Total assets	85,689	110,622	117,533	127,032	144,902	162,104
Interest bearing debt	11,915	9,901	9,227	5,702	3,587	2,318
Other liabilities	43,219	59,385	58,722	62,374	71,387	77,725
Total liabilities	55,134	69,286	67,949	68,076	74,973	80,043
Shareholders' equity	27,284	37,494	46,394	55,514	66,184	77,979
Minorities	3,271	3,842	3,190	3,442	3,744	4,082
Total shareholders' equity	30,555	41,336	49,584	58,956	69,928	82,061
Net debt	*-17,464*	*-31,503*	*-33,672*	*-38,666*	*-45,286*	*-53,883*
Key Company Metrics						
Sales growth (%)	30.0	33.4	7.4	5.6	17.2	10.5
DB EPS growth (%)	58.0	75.7	-4.6	3.6	18.4	11.9
EBITDA Margin (%)	11.8	14.6	12.5	12.5	12.6	12.8
EBIT Margin (%)	8.8	11.3	10.1	10.0	10.1	10.2
Payout ratio (%)	12.4	14.1	14.8	16.0	17.0	18.0
ROE (%)	25.3	33.9	25.0	21.3	21.1	20.0
Capex/sales (%)	4.9	4.1	5.4	7.2	6.8	6.4
Capex/depreciation (x)	1.7	1.3	2.3	2.9	2.7	2.5
Net debt/equity (%)	-57.2	-76.2	-67.9	-65.6	-64.8	-65.7
Net interest cover (x)	nm	nm	nm	nm	nm	nm

Source: Company data, Deutsche Bank estimates

Rating
Buy

Asia
China

Automobiles & Components

Company
Geely Auto

Reuters	Bloomberg
0175.HK	175 HK

Price at 7 Aug 2012 (HKD)	2.55
Price target - 12mth (HKD)	3.60
52-week range (HKD)	3.54 - 1.44
HANG SENG INDEX	20,073

Our preferred pick among China's local brands; Buy

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Technology leadership differentiates Geely from its local peers

Geely ranks among China's largest local brands. It has more than ten years of experience in auto manufacturing. Currently, Geely possesses core auto production technologies including car platforms, gasoline engines and advanced automatic transmissions, which enable the company to outgrow its local peers in selling compact cars at higher price points in China. We think that the additional technology tie-up with Volvo will further enhance its competitiveness going forward; reiterating Buy.

Outperforming local peers in sales volume and mix

In 1H12, Geely registered 4% YoY growth in auto sales volume, outpacing local brands' overall 0.2% YoY decline with the help of a 199% YoY jump in exports (now accounting for 18% of sales). More importantly, sales volume of its higher-margin Emgrand brand increased 36% YoY despite a weak market and rising competitive pressure from foreign brands' low-end compact car products. We think this reflects a solid perception of Geely's product quality both domestically and in other emerging markets.

More technological advancements in product line-up in FY12-14E

Geely has started equipping its cars with the advanced automatic transmission technologies that it acquired a few years ago. Its component development tie-up with global players such as Korea's Mando should help to further enhance its overall product quality. Above all, a potential technology tie-up with Volvo will boost Geely's tech know-how, allowing the latter to introduce more advanced products by end-FY13E.

Slight valuation premium justified by 22% FY11-14E EPS CAGR

Our target valuation is based on 13x FY12E P/E, and we believe the premium valuation to the industry's 11x long-term average is justified given strong EPS CAGR expectations. Our implied target FY12E P/BV of 1.9x seems justified given Geely's sustainable ROE of c. 20%.Downside risks: weak reception of Geely's new models and intensifying competition from local peers.

Price/price relative

Performance (%)	1m	3m	12m
Absolute	-10.2	-9.9	-7.9
HANG SENG INDEX	1.4	-2.3	-4.2

Stock data	
Market cap (HKDm)	19,018
Market cap (USDm)	2,452
Shares outstanding (m)	7,457.9
Major shareholders	Zhejiang Geely Hldg (50%)
Free float (%)	49
Avg daily value traded (USDm)	10.2

Key indicators (FY1)	
ROE (%)	19.0
Net debt/equity (%)	16.3
Book value/share (CNY)	1.51
Price/book (x)	1.4
Net interest cover (x)	10.4
Operating profit margin (%)	11.5

Forecasts And Ratios

Year End Dec 31	2010A	2011A	2012E	2013E	2014E
Sales (CNYm)	20,099.4	20,964.9	24,092.8	28,472.7	38,977.4
EBITDA (CNYm)	2,656.8	3,043.7	3,512.0	4,181.0	5,512.3
Reported NPAT (CNYm)	1,368.4	1,543.4	1,908.5	2,283.1	2,970.1
DB EPS FD (CNY)	0.17	0.19	0.23	0.27	0.35
DB EPS growth (%)	1.9	11.9	18.7	18.9	29.1
PER (x)	17.8	11.9	9.3	7.8	6.1
EV/EBITDA (x)	8.6	6.2	5.0	4.2	3.3
Yield (net) (%)	0.8	1.1	1.5	1.8	2.3

Source: Deutsche Bank estimates, company data

[1] DB EPS is fully diluted and excludes non-recurring items
[2] Multiples and yields calculations use average historical prices for past years and spot prices for current and future years, except P/B which uses the year end close

Model updated:28 June 2012

Running the numbers

Asia

China

Automobiles & Components

Geely Auto

Reuters: 0175.HK | Bloomberg: 175 HK

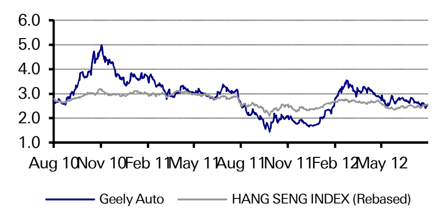
Buy

Price (7 Aug 12)	HKD 2.55
Target Price	HKD 3.60
52 Week range	HKD 1.44 - 3.54
Market Cap (m)	HKDm 19,018
	USDm 2,452

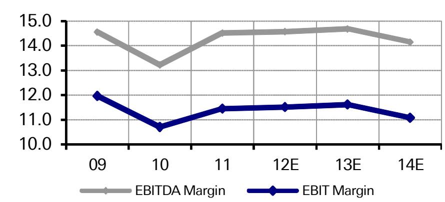
Company Profile

Geely engages in the sales and manufacture of auto parts and passenger cars in China under the brand names "GLEagle", "Englon" and "Emgrand". Besides being one of the leading domestic auto brands in China, the company also exports its automobiles overseas.

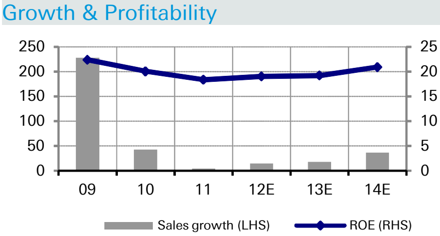
Price Performance



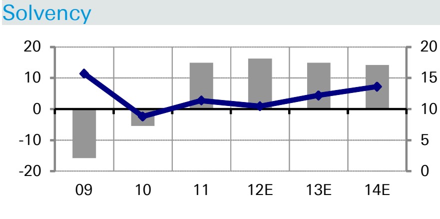
Margin Trends



Growth & Profitability



Solvency



Fiscal year end 31-Dec	2009	2010	2011	2012E	2013E	2014E
Financial Summary						
DB EPS (CNY)	0.17	0.17	0.19	0.23	0.27	0.35
Reported EPS (CNY)	0.16	0.17	0.19	0.23	0.27	0.35
DPS (CNY)	0.02	0.02	0.02	0.03	0.04	0.05
BVPS (CNY)	0.9	1.1	1.3	1.5	1.8	2.1
Weighted average shares (m)	6,927	7,363	7,450	7,457	7,457	7,457
Average market cap (CNYm)	11,001	22,199	16,778	15,613	15,613	15,613
Enterprise value (CNYm)	10,599	22,761	18,863	17,544	17,720	18,034
Valuation Metrics						
P/E (DB) (x)	9.5	17.8	11.9	9.3	7.8	6.1
P/E (Reported) (x)	9.6	17.8	11.9	9.3	7.8	6.1
P/BV (x)	4.31	2.75	1.10	1.39	1.18	0.98
FCF Yield (%)	nm	0.1	nm	nm	0.5	nm
Dividend Yield (%)	1.3	0.8	1.1	1.5	1.8	2.3
EV/Sales (x)	0.8	1.1	0.9	0.7	0.6	0.5
EV/EBITDA (x)	5.2	8.6	6.2	5.0	4.2	3.3
EV/EBIT (x)	6.3	10.6	7.9	6.3	5.4	4.2
Income Statement (CNYm)						
Sales revenue	14,069	20,099	20,965	24,093	28,473	38,977
Gross profit	2,541	3,720	3,820	4,442	5,243	7,356
EBITDA	2,048	2,657	3,044	3,512	4,181	5,512
Depreciation	365	504	642	738	872	1,193
Amortisation	0	0	0	0	0	0
EBIT	1,684	2,152	2,402	2,774	3,309	4,319
Net interest income(expense)	-107	-245	-211	-266	-272	-318
Associates/affiliates	-15	-7	-7	-5	-3	-1
Exceptionals/extraordinaries	-11	0	0	0	0	0
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	1,550	1,900	2,183	2,504	3,034	4,000
Income tax expense	231	351	467	576	728	1,000
Minorities	136	181	172	19	23	30
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	1,183	1,368	1,543	1,908	2,283	2,970
DB adjustments (including dilution)	11	74	74	74	74	74
DB Net profit	1,193	1,442	1,617	1,982	2,357	3,044
Cash Flow (CNYm)						
Cash flow from operations	949	1,983	1,208	1,857	1,678	1,792
Net Capex	-1,331	-1,950	-2,894	-2,000	-1,600	-1,800
Free cash flow	-383	33	-1,686	-143	78	-8
Equity raised/(bought back)	825	106	14	0	0	0
Dividends paid	-91	-148	-170	-184	-231	-276
Net inc/(dec) in borrowings	3,322	-639	716	17	170	1,246
Other investing/financing cash flows	-64	543	-236	0	0	0
Net cash flow	3,609	-105	-1,363	-310	17	962
Change in working capital	*-359*	*-935*	*-1,066*	*-814*	*-1,503*	*-2,403*
Balance Sheet (CNYm)						
Cash and other liquid assets	5,392	4,636	3,384	3,074	3,090	4,052
Tangible fixed assets	5,500	6,835	8,275	9,038	9,766	10,373
Goodwill/intangible assets	0	0	0	0	0	0
Associates/investments	1,113	1,589	2,353	2,348	2,345	2,344
Other assets	6,798	10,915	13,585	15,609	18,445	25,245
Total assets	18,802	23,974	27,597	30,069	33,646	42,014
Interest bearing debt	4,270	4,142	4,901	4,918	5,088	6,334
Other liabilities	7,436	10,755	12,545	13,804	15,181	19,661
Total liabilities	11,706	14,897	17,447	18,722	20,269	25,995
Shareholders' equity	6,376	8,022	9,582	11,260	13,267	15,879
Minorities	721	1,056	568	87	110	140
Total shareholders' equity	7,097	9,078	10,150	11,347	13,377	16,019
Net debt	*-1,123*	*-494*	*1,517*	*1,844*	*1,997*	*2,282*
Key Company Metrics						
Sales growth (%)	228.0	42.9	4.3	14.9	18.2	36.9
DB EPS growth (%)	62.6	1.9	11.9	18.7	18.9	29.1
EBITDA Margin (%)	14.6	13.2	14.5	14.6	14.7	14.1
EBIT Margin (%)	12.0	10.7	11.5	11.5	11.6	11.1
Payout ratio (%)	11.9	12.3	11.9	12.1	12.1	12.1
ROE (%)	22.4	20.0	18.4	19.0	19.2	20.9
Capex/sales (%)	10.5	11.0	15.2	8.3	5.6	4.6
Capex/depreciation (x)	4.0	4.4	5.0	2.7	1.8	1.5
Net debt/equity (%)	-15.8	-5.4	14.9	16.3	14.9	14.2
Net interest cover (x)	15.7	8.8	11.4	10.4	12.2	13.6

Source: Company data, Deutsche Bank estimates

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Rating
Hold

Asia
India

Automobiles & Components

Company
Mahindra & Mahindra

Reuters	Bloomberg
MAHM.BO	MM IN

Price at 7 Aug 2012 (INR)	695.50
Price target - 12mth (INR)	750.00
52-week range (INR)	868.50 - 636.15
BSE 30	17,602

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Ssangyong turnaround is key to business returns; Hold

Maintaining Hold rating with a target price of INR750
M&M faces a moderating demand environment in its core operating niches of UVs and tractors. While UV volumes have been supported by the success of new launches (XUV500), growth in the tractors would remain challenging due to a deficient monsoon. On a consolidated basis, M&M's investments in Ssangyong (20% of capital employed), trucks and 2Ws remain a drag on its overall business returns. M&M's strong operating performance over the past three years (FY09-12 EPS CAGR of 43%) has resulted in a three-year stock outperformance of 41%. However, lack of catalysts and an increasingly testing environment would likely weigh on its stock performance in the medium term.

The importance of Ssangyong to M&M's future returns
M&M has invested $463m in Ssangyong; it accounts for c.20% of the group capital employed and 45% of the automotive division. While Ssangyong provides M&M with a technology roadmap, its turnaround, coupled with lower losses in the 2W and trucks businesses, is imperative for an improvement in the auto division's ROCE, which is 11% now. M&M's auto ancillary division (SYSTECH) and its real estate business may also negatively affect the group ROCE.

Poor monsoon and drought conditions remain an overhang on the company
Tractor sales have been weak (-1% YTD), and are likely to remain so in the increasingly challenging environment. Water levels in the southern reservoirs, which feed M&M's key markets, are significantly below last year's levels. However, the XUV500 has pushed the price envelope on M&M's products, and should have a positive impact on automotive margins. Our estimates factor in FY13/14E growth of 20%/13% for UVs and pickups (includes Maxximo) and 0%/8% for tractors.

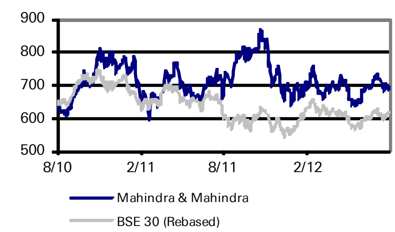
Trading at 14.5x FY13E core EPS; two-year core EPS CAGR (FY12-14E) of 7%
Our target price of INR750 is based on INR587 (DCF-based) for the core business, plus INR164/sh for the stake in its key listed and unlisted subsidiaries (20% holdco discount). Upside risk: better tractor volume growth. Downside risk: a slower-than- expected ramp-up in XUV/Maxximo volumes.

Forecasts And Ratios

Year End Mar 31	2011A	2012A	2013E	2014E	2015E
Sales (INRm)	227,030.0	310,129.0	347,998.9	401,083.2	456,930.6
EBITDA (INRm)	34,374.5	37,698.4	40,199.4	45,695.5	51,957.1
Reported NPAT (INRm)	26,621.0	28,788.9	28,681.8	31,920.6	36,011.3
Reported EPS FD (INR)	43.36	46.89	46.72	51.99	58.66
DB EPS FD (INR)	41.45	45.13	46.72	51.99	58.66
DB EPS growth (%)	17.3	8.9	3.5	11.3	12.8
PER (x)	15.9	15.9	14.9	13.4	11.9

Source: Deutsche Bank estimates, company data

Price/price relative



Performance (%)	1m	3m	12m
Absolute	-4.9	0.6	6.2
BSE 30	0.5	4.1	1.7

Stock data

Market cap (INRm)	426,995
Market cap (USDm)	7,742
Shares outstanding (m)	613.9
Major shareholders	Mahindra (29.2%)
Free float (%)	69
Avg daily value traded (USDm)	15.2

Key indicators (FY1)

ROE (%)	22.0
Net debt/equity (%)	2.9
Book value/share (INR)	227.40
Price/book (x)	3.1
Net interest cover (x)	17.1
Operating profit margin (%)	9.7

Model updated:06 August 2012

Running the numbers

Asia

India

Automobiles & Components

Mahindra & Mahindra

Reuters: MAHM.BO Bloomberg: MM IN

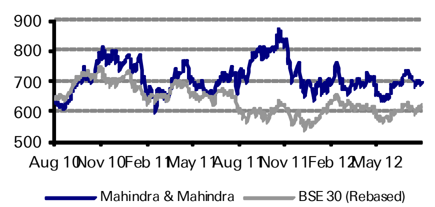
Hold

Price (7 Aug 12)	INR 695.50
Target Price	INR 750.00
52 Week range	INR 636.15 - 868.50
Market Cap (m)	INRm 426,995
	USDm 7,742

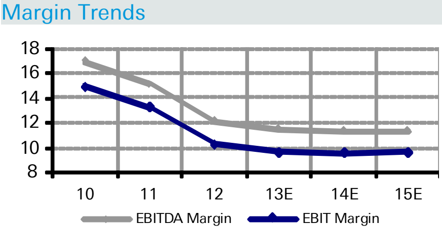
Company Profile

Mahindra is India's largest manufacturer of tractors and utility vehicles. The company also has a presence in software development, real estate development and rural financing through its subsidiaries

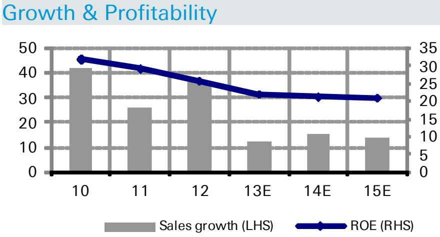
Price Performance



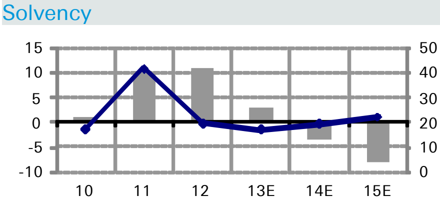
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Mar	2010	2011	2012	2013E	2014E	2015E
Financial Summary						
DB EPS (INR)	35.34	41.45	45.13	46.72	51.99	58.66
Reported EPS (INR)	34.96	43.36	46.89	46.72	51.99	58.66
DPS (INR)	9.50	11.50	12.50	14.00	16.00	17.00
BVPS (INR)	135.3	168.0	197.2	227.4	261.2	300.4
Weighted average shares (m)	578	614	614	614	614	614
Average market cap (INRm)	250,925	405,606	441,899	426,995	426,995	426,995
Enterprise value (INRm)	198,314	334,248	362,718	326,372	304,304	282,451
Valuation Metrics						
P/E (DB) (x)	12.3	15.9	15.9	14.9	13.4	11.9
P/E (Reported) (x)	12.4	15.2	15.3	14.9	13.4	11.9
P/BV (x)	4.03	4.16	3.53	3.06	2.66	2.32
FCF Yield (%)	5.9	4.8	4.0	7.8	7.8	7.9
Dividend Yield (%)	2.2	1.7	1.7	2.0	2.3	2.4
EV/Sales (x)	1.1	1.5	1.2	0.9	0.8	0.6
EV/EBITDA (x)	6.5	9.7	9.6	8.1	6.7	5.4
EV/EBIT (x)	7.4	11.1	11.4	9.7	7.9	6.4
Income Statement (INRm)						
Sales revenue	180,248	227,030	310,129	347,999	401,083	456,931
Gross profit	25,047	26,943	29,475	30,990	35,104	39,777
EBITDA	30,687	34,375	37,698	40,199	45,695	51,957
Depreciation	3,708	4,139	5,761	6,591	7,251	7,931
Amortisation	0	0	0	0	0	0
EBIT	26,979	30,236	31,937	33,609	38,445	44,026
Net interest income(expense)	-1,569	-725	-1,628	-1,969	-1,969	-1,969
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinaries	-227	1,175	1,083	0	0	0
Other pre-tax income/(expense)	3,284	4,510	4,667	5,132	5,526	5,958
Profit before tax	28,468	35,196	36,059	36,772	42,001	48,015
Income tax expense	7,590	8,575	7,270	8,090	10,080	12,004
Minorities	0	0	0	0	0	0
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	20,878	26,621	28,789	28,682	31,921	36,011
DB adjustments (including dilution)	227	-1,175	-1,083	0	0	0
DB Net profit	21,105	25,446	27,706	28,682	31,921	36,011
Cash Flow (INRm)						
Cash flow from operations	23,280	25,498	35,120	41,476	41,766	42,252
Net Capex	-8,592	-6,177	-17,503	-8,000	-8,500	-8,500
Free cash flow	14,688	19,320	17,617	33,476	33,266	33,752
Equity raised/(bought back)	6,909	9,972	906	-540	0	0
Dividends paid	-6,238	-8,026	-8,686	-9,798	-11,198	-11,898
Net inc/(dec) in borrowings	-11,726	-4,757	11,763	0	0	0
Other investing/financing cash flows	-5,749	-25,276	-13,848	-12,000	-12,500	-12,500
Net cash flow	-2,115	-8,767	7,751	11,138	9,568	9,353
Change in working capital	*-4,119*	*-1,422*	*-1,964*	*4,286*	*2,595*	*-1,690*
Balance Sheet (INRm)						
Cash and other liquid assets	27,781	13,349	22,253	31,695	41,263	50,617
Tangible fixed assets	37,027	39,066	50,808	52,217	53,466	54,035
Goodwill/intangible assets	0	0	0	0	0	0
Associates/investments	53,631	82,054	92,736	104,736	117,236	129,736
Other assets	40,588	55,513	65,417	74,910	84,938	100,009
Total assets	159,028	189,982	231,214	263,558	296,903	334,397
Interest bearing debt	28,802	24,045	35,808	35,808	35,808	35,808
Other liabilities	51,965	62,803	74,359	90,056	102,678	116,059
Total liabilities	80,767	86,848	110,167	125,863	138,485	151,866
Shareholders' equity	78,261	103,134	121,047	139,612	160,334	184,447
Minorities	0	0	0	0	0	0
Total shareholders' equity	78,261	103,134	121,047	139,612	160,334	184,447
Net debt	*1,020*	*10,696*	*13,554*	*4,112*	*-5,456*	*-14,809*
Key Company Metrics						
Sales growth (%)	42.1	26.0	36.6	12.2	15.3	13.9
DB EPS growth (%)	97.9	17.3	8.9	3.5	11.3	12.8
EBITDA Margin (%)	17.0	15.1	12.2	11.6	11.4	11.4
EBIT Margin (%)	15.0	13.3	10.3	9.7	9.6	9.6
Payout ratio (%)	26.3	26.5	26.7	30.0	30.8	29.0
ROE (%)	32.0	29.4	25.7	22.0	21.3	20.9
Capex/sales (%)	4.8	2.7	5.6	2.3	2.1	1.9
Capex/depreciation (x)	2.3	1.5	3.0	1.2	1.2	1.1
Net debt/equity (%)	1.3	10.4	11.2	2.9	-3.4	-8.0
Net interest cover (x)	17.2	41.7	19.6	17.1	19.5	22.4

Source: Company data, Deutsche Bank estimates

Rating
Hold

Asia
India

Automobiles & Components

Company
Maruti Suzuki Limited

Reuters	Bloomberg
MRTI.BO	MSIL IN

Price at 7 Aug 2012 (INR)	1,146.90
Price target - 12mth (INR)	1,100.00
52-week range (INR)	1,397.10 - 914.35
BSE 30	17,602

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Dominant position in India but margins to lag regional peers

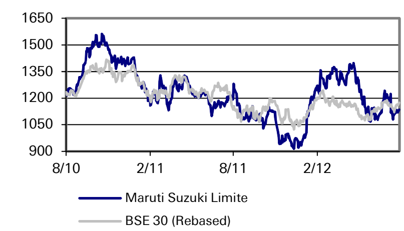
Maintaining Hold with a target price of Rs1,100
Rising concerns over demand, the rate of margin improvement and the recent episode of labour unrest have led to stock underperformance (13% vs. 3m Sensex). We believe the current price reflects these concerns and with minimal downside to our target price, we retain our Hold rating on Maruti. Our EPS forecasts reflect the lower demand growth expectations but do not factor in the plant closure. Maruti's financials should recover from the trough in FY12 (two-year EPS CAGR of 23%) but valuations (PEG of 0.7) reflect the outcome. An improved demand outlook would be a key catalyst for sustainable stock performance.

Robust potential but mix and margins likely to be inferior to regional peers
We estimate long-term growth for the Indian 4W sector of around 12-14% and Maruti’s dominance will help it to benefit from this dynamic. However its margins will likely be lower, due to its mix being skewed towards lower-margin smaller cars and the escalating competitive intensity in India. In the short term (FY12-14E), we expect an increase in EBITDA/car, from Rs22,165 to Rs28,098, due to the rising share of diesel vehicles. Maruti’s margins are significantly FX-linked as costs equivalent to c.27% of revenues are JPY-denominated. 5% JPY appreciation leads to a 12%-15% fall in EPS.

Labour unrest continues to be an overhang on stock performance
The current lockout at the Manesar plant should be viewed in the context of the series of labour disruptions which have taken place over the past 18 months. Our checks suggest that the underlying issue is the employment of contract labour (albeit at a slightly lower skill level) in the factory at a lower salary compared to permanent staff. At end-FY11, contract workers accounted for 48% of Maruti’s total workforce, which we believe is higher than its peers.

Two-year EPS CAGR (FY12-14E) of 23%; trading at 16x FY13E P/E
Our DCF-based (Rf 6.0%, Rm 8.5%, CoE & WACC 13.2%, TGR 4.0%) target price of Rs1,100 implies 15.5x FY13E and 13x FY14E EPS. Upside risks include an uptick in demand and depreciation of the JPY. A sustained slowdown in diesel car demand is a downside risk.

Price/price relative



Performance (%)	1m	3m	12m
Absolute	-5.7	-12.8	-3.9
BSE 30	0.5	4.1	1.7

Stock data	
Market cap (INRm)	331,454
Market cap (USDm)	6,010
Shares outstanding (m)	289.0
Major shareholders	Suzuki (54%)
Free float (%)	46
Avg daily value traded (USDm)	22.8

Key indicators (FY1)	
ROE (%)	12.7
Net debt/equity (%)	-42.3
Book value/share (INR)	582.83
Price/book (x)	2.0
Net interest cover (x)	38.6
Operating profit margin (%)	4.2

Forecasts And Ratios

Year End Mar 31	2011A	2012A	2013E	2014E	2015E
Sales (INRm)	361,282.0	347,058.9	455,239.9	552,827.2	657,260.5
EBITDA (INRm)	36,094.7	25,128.9	32,564.4	40,728.4	47,560.2
Reported NPAT (INRm)	22,886.6	16,351.4	20,284.9	24,707.7	28,374.0
Reported EPS FD (INR)	79.19	56.58	70.19	85.49	98.18
DB EPS FD (INR)	77.29	56.58	70.19	85.49	98.18
DB EPS growth (%)	-11.0	-26.8	24.1	21.8	14.8
PER (x)	17.3	20.4	16.3	13.4	11.7

Source: Deutsche Bank estimates, company data

[1] DB EPS is fully diluted and excludes non-recurring items; 2 Multiples and yields calculations use average historical prices for past years and spot prices for current and future years, except P/B which uses the year end close

Model updated:24 July 2012

Running the numbers

Asia

India

Automobiles & Components

Maruti Suzuki Limited

Reuters: MRTI.BO | Bloomberg: MSIL IN

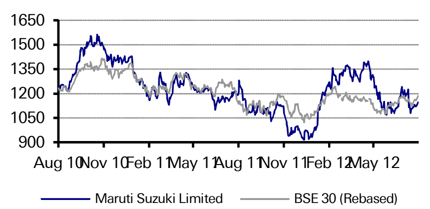
Hold

Price (7 Aug 12)	INR 1,146.90
Target Price	INR 1,100.00
52 Week range	INR 914.35 - 1,397.10
Market Cap (m)	INRm 331,454
	USDm 6,010

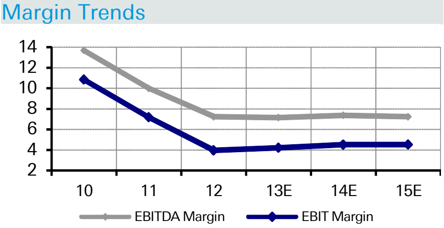
Company Profile

Manufactures and sells passenger cars and utility vehicles

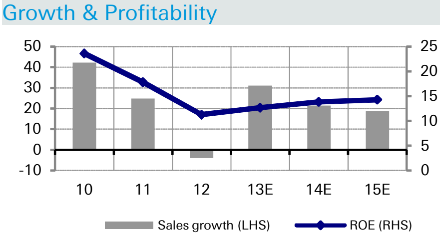
Price Performance



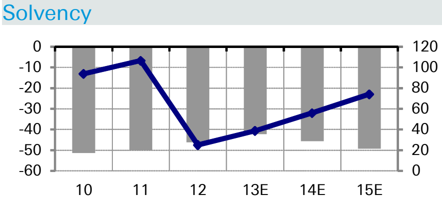
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Mar	2010	2011	2012	2013E	2014E	2015E
Financial Summary						
DB EPS (INR)	86.89	77.29	56.58	70.19	85.49	98.18
Reported EPS (INR)	86.42	79.19	56.58	70.19	85.49	98.18
DPS (INR)	6.00	7.50	7.50	11.00	13.00	14.00
BVPS (INR)	409.5	479.8	525.5	582.8	653.1	720.9
Weighted average shares (m)	289	289	289	289	289	289
Average market cap (INRm)	380,894	385,779	334,004	331,454	331,454	331,454
Enterprise value (INRm)	316,360	312,720	259,919	256,175	241,434	224,769
Valuation Metrics						
P/E (DB) (x)	15.2	17.3	20.4	16.3	13.4	11.7
P/E (Reported) (x)	15.3	16.9	20.4	16.3	13.4	11.7
P/BV (x)	3.46	2.63	2.57	1.97	1.76	1.59
FCF Yield (%)	5.4	2.7	1.3	1.5	5.8	7.7
Dividend Yield (%)	0.5	0.6	0.6	1.0	1.1	1.2
EV/Sales (x)	1.1	0.9	0.7	0.6	0.4	0.3
EV/EBITDA (x)	8.0	8.7	10.3	7.9	5.9	4.7
EV/EBIT (x)	10.1	12.0	18.9	13.4	9.7	7.6
Income Statement (INRm)						
Sales revenue	289,585	361,282	347,059	455,240	552,827	657,260
Gross profit	32,998	28,178	16,317	21,998	28,048	32,402
EBITDA	39,644	36,095	25,129	32,564	40,728	47,560
Depreciation	8,250	10,135	11,384	13,390	15,768	17,818
Amortisation	0	0	0	0	0	0
EBIT	31,394	25,960	13,745	19,175	24,961	29,743
Net interest income(expense)	-335	-244	-552	-497	-447	-402
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinaries	-135	549	0	0	0	0
Other pre-tax income/(expense)	5,001	4,824	8,269	8,734	9,102	9,528
Profit before tax	35,925	31,089	21,462	27,412	33,616	38,869
Income tax expense	10,949	8,202	5,111	7,127	8,908	10,494
Minorities	0	0	0	0	0	0
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	24,976	22,887	16,351	20,285	24,708	28,374
DB adjustments (including dilution)	135	-549	0	0	0	0
DB Net profit	25,111	22,338	16,351	20,285	24,708	28,374
Cash Flow (INRm)						
Cash flow from operations	33,661	36,131	27,305	34,912	44,138	50,445
Net Capex	-13,052	-25,592	-23,125	-30,000	-25,000	-25,000
Free cash flow	20,609	10,539	4,180	4,912	19,138	25,445
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-2,021	-2,518	-2,536	-3,719	-4,396	-8,780
Net inc/(dec) in borrowings	1,225	-5,121	8,656	0	0	0
Other investing/financing cash flows	-40,033	20,699	-10,406	0	0	0
Net cash flow	-20,220	23,599	-107	1,193	14,742	16,665
Change in working capital	*481*	*3,384*	*-1,810*	*-133*	*1,982*	*2,310*
Balance Sheet (INRm)						
Cash and other liquid assets	68,912	72,191	81,874	83,067	97,809	114,474
Tangible fixed assets	54,123	69,580	81,321	97,932	107,164	114,346
Goodwill/intangible assets	0	0	0	0	0	0
Associates/investments	3,836	3,961	3,961	3,961	3,961	3,961
Other assets	36,742	38,478	55,866	63,984	75,588	92,001
Total assets	163,613	184,210	223,022	248,943	284,522	324,782
Interest bearing debt	8,214	3,093	11,749	11,749	11,749	11,749
Other liabilities	37,048	42,442	59,399	68,755	84,022	104,688
Total liabilities	45,262	45,535	71,149	80,504	95,771	116,437
Shareholders' equity	118,351	138,675	151,873	168,439	188,751	208,345
Minorities	0	0	0	0	0	0
Total shareholders' equity	118,351	138,675	151,873	168,439	188,751	208,345
Net debt	*-60,698*	*-69,098*	*-70,125*	*-71,318*	*-86,060*	*-102,724*
Key Company Metrics						
Sales growth (%)	42.2	24.8	-3.9	31.2	21.4	18.9
DB EPS growth (%)	79.0	-11.0	-26.8	24.1	21.8	14.8
EBITDA Margin (%)	13.7	10.0	7.2	7.2	7.4	7.2
EBIT Margin (%)	10.8	7.2	4.0	4.2	4.5	4.5
Payout ratio (%)	6.9	9.5	13.3	15.7	15.2	14.3
ROE (%)	23.6	17.8	11.3	12.7	13.8	14.3
Capex/sales (%)	4.5	7.1	6.7	6.6	4.5	3.8
Capex/depreciation (x)	1.6	2.5	2.0	2.2	1.6	1.4
Net debt/equity (%)	-51.3	-49.8	-46.2	-42.3	-45.6	-49.3
Net interest cover (x)	93.7	106.3	24.9	38.6	55.8	73.9

Source: Company data, Deutsche Bank estimates

Rating
Hold

Asia
India

Automobiles & Components

Company
Tata Motors Ltd

Reuters	Bloomberg
TAMO.BO	TTMT IN

Price at 7 Aug 2012 (INR)	238.75
Price target - 12mth (INR)	250.00
52-week range (INR)	319.35 - 139.65
BSE 30	17,602

Weak business performance likely in the price; maintaining Hold

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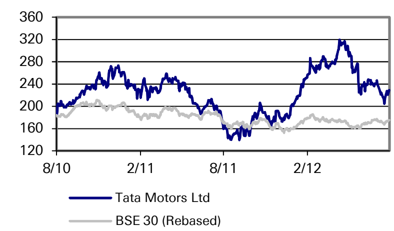
Moderating demand and weaker margins likely in the price; maintaining Hold
Tata Motors' recent underperformance (of 26% vs. Sensex over 3m) has been underlined by concerns on Jaguar Land Rover's (JLR) margins, due to weakening global trends in pricing and demand. While we acknowledge the likely positive impact of JLR's model revamp in the coming years, its investment in engine manufacturing is a risky proposition. Our forecasts factor in a moderation in JLR EBIT margins and increased competitive intensity in the domestic market. At the current price, assuming 6x FY13E EV/EBITDA for the India-based business, JLR trades at an implied 2.6x FY13 EV/EBITDA – a 16% premium to BMW after adjusting for accounting differences.

Jaguar Land Rover (JLR) – a moderation in growth and margins ahead
Over the next two years, we expect JLR's EBIT margins to moderate to 9.3% from the current level of 11.6%. Our volume forecasts of 374K/403K for FY13E/14E assume Evoque volumes of 120K/132K, implying volume growth of 0% and 6.5% for legacy brands in the respective years. Commentary from global luxury car manufacturers is indicating demand pressures in Europe and a general weakening in pricing across markets.

Domestic business – demand slowdown and increased competition
We expect heavy CV growth of 0%/10% for FY13/14 – 1QFY13 volume growth is at -23%. Our channel checks suggest that discounts have increased in the marketplace, indicating continued expectation of weak volumes. While light CVs (the most profitable segment) continue to grow (+19% in 1QFY13), the entry of M&M and Ashok Leyland will likely impact TAMO's pricing power. The car business also continues to face a challenging operating environment. We forecast India EBITDA margins to decline from 7.7% in FY12 to 7% in FY14E.

JLR trading at implied 2.7x FY13E EV/EBITDA, assuming India business at 6x
We base our Rs250 target price on SoTP of Rs198 and Rs47 for JLR (3x FY13E EV/EBITDA) and the India-based business (6x FY13E EV/EBITDA), respectively, plus Rs5/share for the financing business. Upside risks include better-than-expected JLR volumes. Downside risk: lower-than-expected Evoque volumes.

Price/price relative



Performance (%)	1m	3m	12m
Absolute	-0.7	-22.6	34.2
BSE 30	0.5	4.1	1.7

Stock data

Market cap (INRm)	757,570
Market cap (USDm)	13,735
Shares outstanding (m)	3,173.1
Major shareholders	Tata group (47.1%)
Free float (%)	40
Avg daily value traded (USDm)	58.2

Key indicators (FY1)

ROE (%)	51.7
Net debt/equity (%)	68.5
Book value/share (INR)	104.47
Price/book (x)	2.3
Net interest cover (x)	5.6
Operating profit margin (%)	10.1

Forecasts And Ratios

Year End Mar 31	2010A	2011A	2012E	2013E	2014E
Sales (INRm)	904,567.9	1,208,965.4	1,648,545.2	1,954,519.4	2,136,956.8
EBITDA (INRm)	73,438.3	166,780.0	223,112.4	256,451.4	275,845.2
Reported NPAT (INRm)	25,710.6	92,736.1	135,165.0	138,261.8	140,188.9
Reported EPS FD (INR)	9.07	29.94	40.67	42.97	43.57
DB EPS FD (INR)	3.53	28.75	43.18	42.97	43.57
DB EPS growth (%)	–	714.5	50.2	-0.5	1.4
PER (x)	30.1	7.2	5.5	5.6	5.5
EV/EBITDA (x)	7.4	5.1	4.0	3.3	2.8

Source: Deutsche Bank estimates, company data

[1] DB EPS is fully diluted and excludes non-recurring items; 2 Multiples and yields calculations use average historical prices for past years and spot prices for current and future years, except P/B which uses the year end close

Model updated:05 June 2012

Running the numbers

Asia

India

Automobiles & Components

Tata Motors Ltd

Reuters: TAMO.BO Bloomberg: TTMT IN

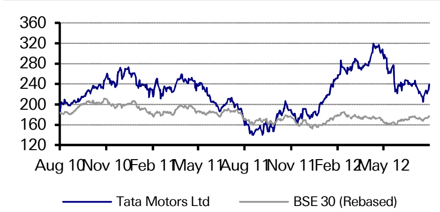
Hold

Price (7 Aug 12)	INR 238.75
Target Price	INR 250.00
52 Week range	INR 139.65 - 319.35
Market Cap (m)	INRm 757,570
	USDm 13,735

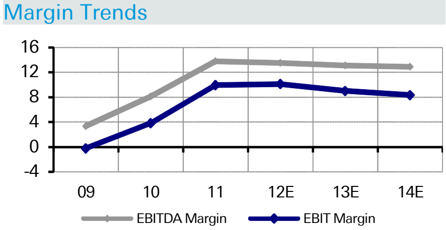
Company Profile

Tata Engineering and Locomotive Company Limited manufactures cars and commercial automotive vehicles in India. The Company designs, manufactures and sells heavy commercial, medium commercial and small commercial vehicles including trucks, tankers, vans, buses, ambulances and minibuses. Tata also manufactures small cars and sports utility vehicles.

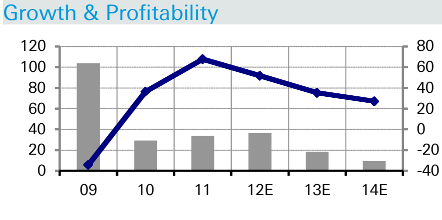
Price Performance



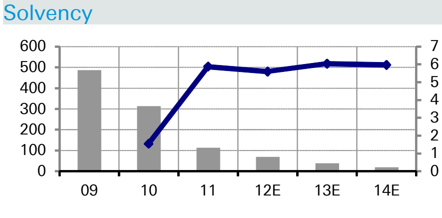
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Mar	2009	2010	2011	2012E	2013E	2014E
Financial Summary						
DB EPS (INR)	-9.21	3.53	28.75	43.18	42.97	43.57
Reported EPS (INR)	-10.16	9.07	29.94	40.67	42.97	43.57
DPS (INR)	1.21	3.01	4.02	4.00	4.00	4.00
BVPS (INR)	23.1	28.8	60.4	104.5	143.4	183.1
Weighted average shares (m)	2,570	2,853	3,173	3,173	3,173	3,173
Average market cap (INRm)	172,224	302,820	654,321	757,570	757,570	757,570
Enterprise value (INRm)	472,205	546,415	849,779	900,710	845,346	784,810
Valuation Metrics						
P/E (DB) (x)	nm	30.1	7.2	5.5	5.6	5.5
P/E (Reported) (x)	nm	11.7	6.9	5.9	5.6	5.5
P/BV (x)	1.56	5.25	4.13	2.29	1.66	1.30
FCF Yield (%)	nm	14.3	4.1	7.5	9.3	10.0
Dividend Yield (%)	1.8	2.8	1.9	1.7	1.7	1.7
EV/Sales (x)	0.7	0.6	0.7	0.5	0.4	0.4
EV/EBITDA (x)	20.1	7.4	5.1	4.0	3.3	2.8
EV/EBIT (x)	nm	15.8	7.1	5.4	4.8	4.4
Income Statement (INRm)						
Sales revenue	699,004	904,568	1,208,965	1,648,545	1,954,519	2,136,957
Gross profit	8,112	53,876	145,027	215,113	227,439	245,315
EBITDA	23,530	73,438	166,780	223,112	256,451	275,845
Depreciation	25,068	38,871	46,555	56,254	80,444	97,645
Amortisation	0	0	0	0	0	0
EBIT	-1,538	34,567	120,225	166,859	176,008	178,200
Net interest income(expense)	-19,309	-22,397	-20,454	-29,822	-29,164	-29,864
Associates/affiliates	-517	845	1,014	249	299	329
Exceptionals/extraordinaries	-2,350	15,705	3,705	-8,315	0	0
Other pre-tax income/(expense)	1,905	7,352	896	6,618	7,279	8,007
Profit before tax	-21,810	36,071	105,385	135,588	154,422	156,672
Income tax expense	3,358	10,058	12,164	-400	15,412	15,634
Minorities	-115	303	485	823	748	849
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	-25,052	25,711	92,736	135,165	138,262	140,189
DB adjustments (including dilution)	2,350	-15,705	-3,705	8,315	0	0
DB Net profit	-22,702	10,006	89,031	143,480	138,262	140,189
Cash Flow (INRm)						
Cash flow from operations	46,121	106,837	125,031	245,126	251,958	256,065
Net Capex	-278,143	-63,644	-98,042	-188,537	-181,549	-180,540
Free cash flow	-232,022	43,193	26,989	56,589	70,409	75,525
Equity raised/(bought back)	39,576	14,048	47,032	-30	0	0
Dividends paid	-3,457	-9,919	-14,670	-14,596	-14,596	-14,469
Net inc/(dec) in borrowings	233,890	1,345	-23,170	83,712	10,000	10,000
Other investing/financing cash flows	-31,882	-10,971	-2,392	-63,703	-1,701	-1,671
Net cash flow	6,105	37,696	33,789	61,972	64,112	69,385
Change in working capital	*53,452*	*44,630*	*-11,217*	*87,712*	*28,289*	*17,711*
Balance Sheet (INRm)						
Cash and other liquid assets	41,213	87,433	109,479	182,381	246,493	315,878
Tangible fixed assets	394,520	419,292	470,779	603,062	704,168	787,062
Goodwill/intangible assets	0	0	0	0	0	0
Associates/investments	12,574	22,191	25,443	89,177	91,177	93,177
Other assets	283,288	335,112	400,870	533,812	634,388	689,812
Total assets	731,595	864,028	1,006,571	1,408,433	1,676,226	1,885,929
Interest bearing debt	349,739	351,084	327,914	411,627	421,627	431,627
Other liabilities	318,420	428,745	484,476	662,236	795,615	868,749
Total liabilities	668,158	779,828	812,390	1,073,863	1,217,241	1,300,376
Shareholders' equity	59,406	82,065	191,715	331,499	455,165	580,885
Minorities	4,030	2,135	2,466	3,071	3,820	4,669
Total shareholders' equity	63,437	84,200	194,181	334,571	458,984	585,553
Net debt	*308,525*	*263,650*	*218,435*	*229,245*	*175,133*	*115,748*
Key Company Metrics						
Sales growth (%)	103.9	29.4	33.7	36.4	18.6	9.3
DB EPS growth (%)	na	na	714.5	50.2	-0.5	1.4
EBITDA Margin (%)	3.4	8.1	13.8	13.5	13.1	12.9
EBIT Margin (%)	-0.2	3.8	9.9	10.1	9.0	8.3
Payout ratio (%)	nm	33.4	13.7	9.4	9.2	9.1
ROE (%)	-34.2	36.3	67.7	51.7	35.2	27.1
Capex/sales (%)	40.8	7.0	8.1	11.4	9.3	8.4
Capex/depreciation (x)	11.4	1.6	2.1	3.4	2.3	1.8
Net debt/equity (%)	486.4	313.1	112.5	68.5	38.2	19.8
Net interest cover (x)	nm	1.5	5.9	5.6	6.0	6.0

Source: Company data, Deutsche Bank estimates

Appendix A: summary of Asia's major OEMs' sales mix

Figure 73: Summary comparison of Asia auto manufacturers featured in this report

	Hyundai	Kia	Brilliance (BMW JV)	Dongfeng	Geely	Mahindra	Maruti	Tata
Brands	Hyundai	Kia	BMW	Nissan Honda Peugeot Citeron Fengshen Dongfeng (commercial vehicles)	GLEagle Englon Emgrand	Mahindra	Maruti Suzuki	Tata Jaguar Land Rover
CY11/FY12 revenue (local currency)	KRW77.7trn	KRW43.1trn	RMB37.5bn	RMB131.4bn	RMB24.5bn	INR318.4bn	INR355.9bn	INR1,656.5bn
CY11/FY12 sales volume ('000 units)								
Passenger vehicle	3,757	2,369	108	1,646	422	250	1,134	695
YoY% growth	*12.8%*	*19.3%*	*53.5%*	*16.1%*	*1.4%*	*35.2%*	*-10.8%*	*15.6%*
Commercial vehicle (trucks/buses)	302	105	0	526	0	148	0	527
YoY% growth	*6.9%*	*3.3%*	*n.a.*	*-0.3%*	*n.a.*	*27.6%*	*n.a.*	*18.9%*
Tractor	0	0	0	0	0	235	0	0
YoY% growth	*n.a*	*n.a*	*n.a*	*n.a*	*n.a*	*10.2%*	*n.a.*	*n.a*
CY11/FY12 passenger vehicle sales mix by type								
Minicar	0%	0%	0%	0%	0%	0%	75%	35%
Subcompact sedan	33%	23%	0%	10%	10%	7%	10%	3%
Compact sedan	27%	23%	0%	48%	86%	0%	2%	0%
Midsize sedan	18%	11%	0%	14%	4%	0%	0%	0%
Luxury sedan	2%	0%	100%	0%	0%	0%	0%	8%
SUV	18%	36%	0%	19%	0%	83%	1%	45%
MPV (passenger vans)	2%	6%	0%	9%	0%	10%	13%	9%
CY11/FY12 passenger vehicle sales mix by region	16% North America 10% Europe 44% Asia (including 19% China) (Including 9% India) 30% Others	20% North America 12% Europe 37% Asia (including 18% China) 31% Others	100% China	Mostly in China	91% China 9% other emerging markets	Mostly in India	89% In India 4% Europe	55% in India 20% Europe 9% North America 8% China

Source: Company data, Deutsche Bank

Appendix B: stock performance and valuation comparison

Key points

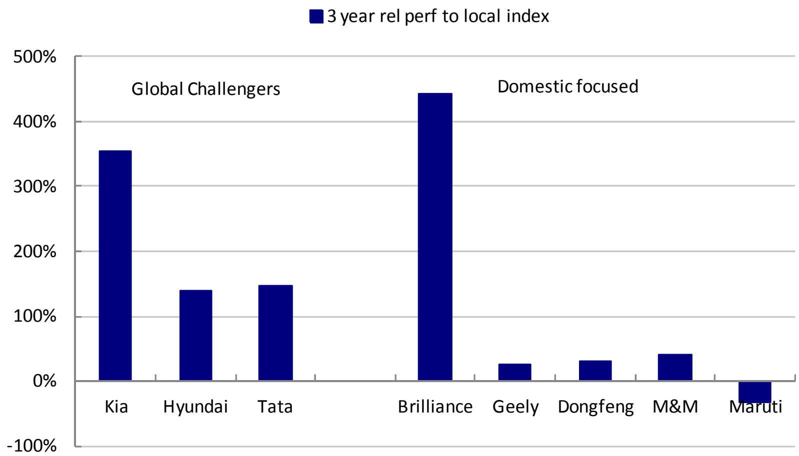
- Global challengers have significantly outperformed domestically focused companies.
- Performance relative to the local index offers a valid basis for cross-country comparison; Korean and Indian companies' relative performance has been superior to that of Chinese stocks.
- Korean stocks appear significantly cheap on a regional basis, on both absolute PE and PE relative to the local index.
- Korean autos – PE relative has remained largely unchanged, despite strong stock outperformance.
- Chinese autos – Brilliance's premium likely reflects the attractiveness of its operating niche (luxury cars).
- Indian autos – Maruti reaching close to the lower end of its PE relative.

Global challengers have significantly outperformed domestically focused companies

Performance relative to local index offers a valid basis for cross-country comparison

We compare the performance of Korean stocks to the KOSPI, Chinese stocks to the HSI and Indian stocks to the Sensex. Across the region, all auto stocks, except Maruti, have outperformed their local indices on a one-, two- and three-year basis. However, the notable aspect is the absolute and relative outperformance of the global challengers (Tata Motors, Hyundai, Kia), which is significantly higher than that of the domestic plays (Dongfeng, Geely, Mahindra and Maruti), particularly over a three-year timeframe. The post-credit crisis period saw robust sales momentum and market share gains for the global challengers, which underlined their outperformance.

Figure 74: Auto OEMs' three-year relative price performance to local index



Source: Bloomberg Finance LP, Deutsche Bank

Korean and Indian companies' relative performance has been superior to that of Chinese stocks

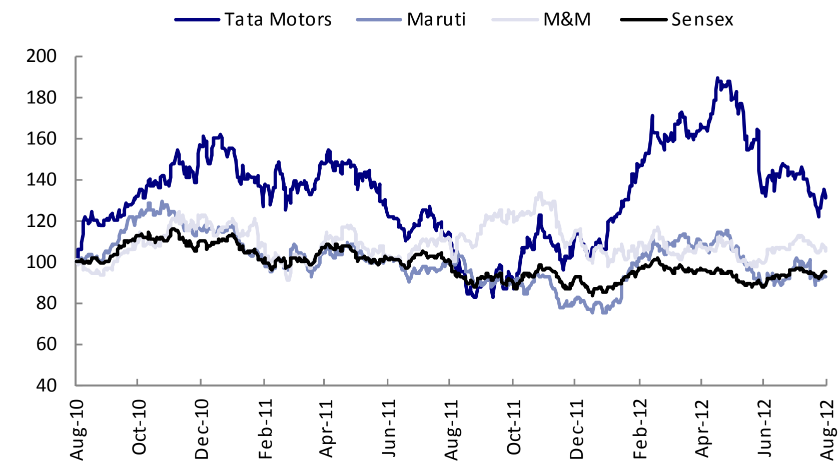
On a country basis, the relative performance of Indian and Korean stocks has been better than that of Chinese stocks over a timeframe of one year or more.

Figure 75: Auto companies' price performance relative to domestic market

Company	Relative price performance (%)					
	1mth	3mth	6mth	1yr	2yr	3yr
Dongfeng	(5.0)	(16.2)	(18.8)	(15.4)	3.1	29.5
Geely	(11.5)	(9.9)	5.3	(8.3)	(9.7)	26.6
Brilliance	(3.8)	(23.3)	(18.9)	(32.8)	116.6	442.0
Hyundai	0.3	(2.3)	13.9	19.4	51.6	139.9
Kia	2.7	1.1	20.0	10.3	130.9	353.7
Tata Motors	(4.9)	(29.0)	(8.5)	23.2	36.3	148.2
Maruti	(6.7)	(14.7)	(7.4)	(3.4)	(2.6)	(31.8)
M&M	(3.2)	(2.5)	(1.3)	0.7	10.1	41.0

Source: Bloomberg Finance LP, Deutsche Bank

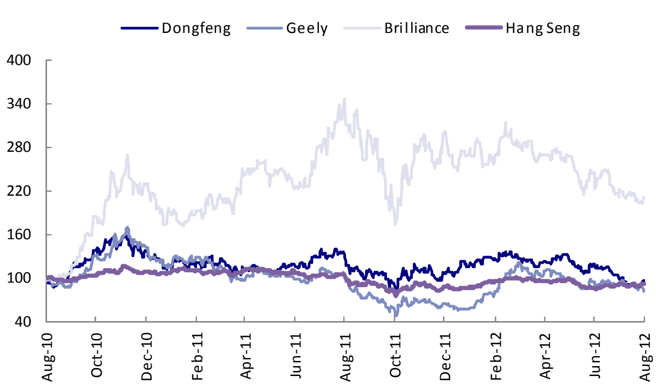
Figure 76: Indian auto OEMs' price performance vs. Sensex



Source: Bloomberg Finance LP, Deutsche Bank

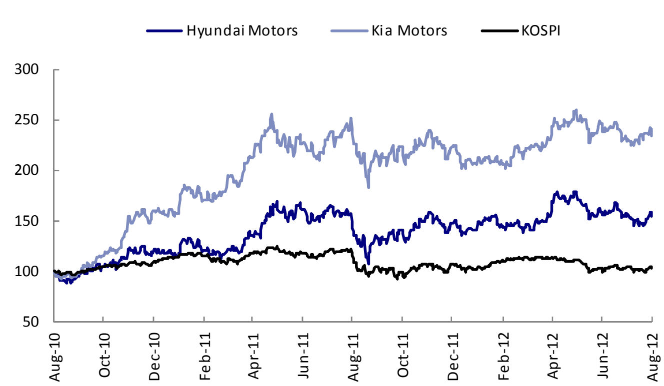
Indian stocks have started to underperform, as concerns on slowing demand have escalated. Maruti's underperformance also reflects the impact of an appreciating yen, which materially affects its profitability. In the medium term, we expect Tata Motors' and Mahindra's outperformance to contract further, as the market factors in the slowing demand environment.

Figure 77: Dongfeng and Geely price performance vs. HSI



Source: Bloomberg Finance LP, Deutsche Bank

Figure 78: Hyundai and Kia price performance vs. KOSPI



Source: Bloomberg Finance LP, Deutsche Bank

Among the Chinese stocks, Geely has largely outperformed over the last six months on account of a product mix improvement, rising exports and stock price underperformance in 2H11. Hyundai and Kia's relative performances have been largely similar since January 2012, reflecting their similar sales growth YTD.

Valuation comparison: Korean stocks significantly cheap on a regional basis, on both absolute PE and PE relative to local index

Accounting differences partially impair valuation comparison

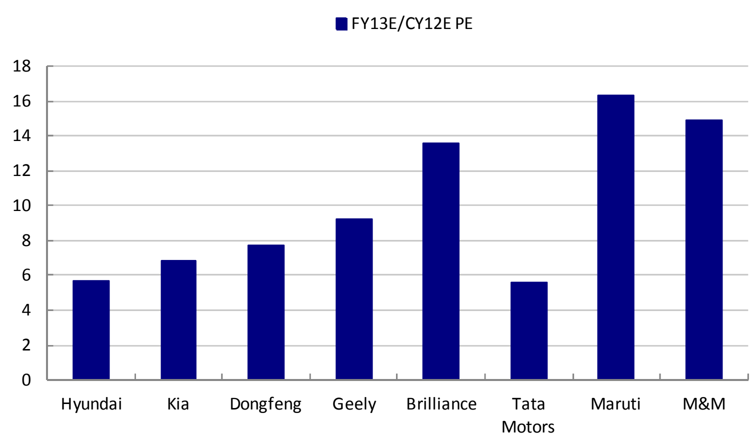
A cross-country valuation is beset with the familiar problem of differences in accounting systems and policies followed by the companies. For instance, under IGAAP, there is no impact on the P&L due to zero-coupon convertibles, as the redemption premium is adjusted directly in the shareholders' equity. This treatment would generally overstate profits and ROE. In addition, the inclusion of a financing business (as is the case of Hyundai) also skews the PE and impairs any EV-based valuation multiples.

On balance, we believe PE multiples and trends in PE relative to the local index provide a useful basis for comparison among the Asian auto companies.

On PER, Indian companies are most expensive; Korean companies the cheapest

Indian auto companies are trading at a FY13E (March Y/E) PE of 15-16x, compared with 8-14x 2012E for Chinese and 6-7x 2012E for Korean companies. Tata Motors trades at a materially lower PE multiple (6x) compared with its Indian peers – however, adjusting for the differences in accounting, we believe the multiple would expand to 8-9x, which would be in line with its peers in the premium car market (Daimler and BMW).

Figure 79: Asia auto OEMs' PE comparison



Source: Deutsche Bank estimates

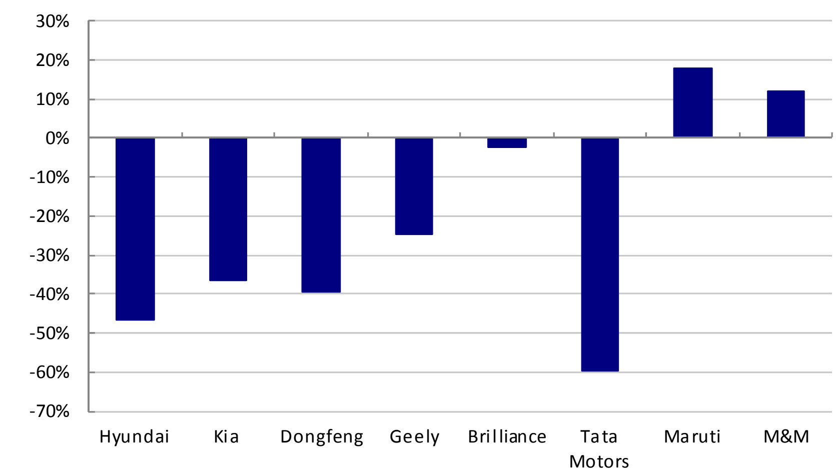
PER relative to local index

A cross-country comparison of PE multiples is also affected by country-specific risk. Hence, a comparison of PE relative to the local index 'normalizes' the valuation comparison and helps to ascribe the rerating/derating to company-specific factors.

PE relative to local index – Indian companies at premium, Koreans at huge discount

As with PER, Korean companies trade at a significant discount to the KOSPI, reflecting the market's concerns about peak earnings and the unsustainability of margins. In the case of Chinese companies, Brilliance trades at a premium, likely reflecting its strong earnings growth. Indian auto companies have generally traded at a premium to the market, as investors bracket them as consumption plays with reasonable visibility in demand and predictability of margins.

Figure 80: PE discount/premium to domestic market (current)

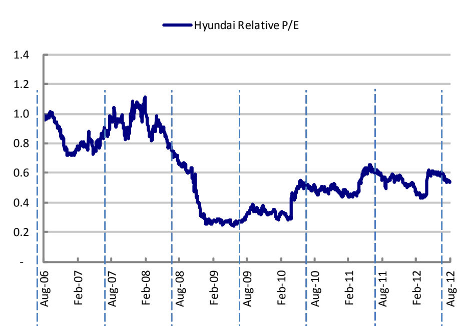


Source: Bloomberg Finance LP, Deutsche Bank estimates

Korean auto – PE relative has remained largely unchanged, despite strong stock outperformance

Hyundai and Kia have significantly outperformed the KOSPI on a two-year basis by 60%/140% and on one-year basis by 7%/19%. However, we note that the PE relative has remained largely unchanged. This implies that stock performance has driven EPS growth, rather than the rating. We remain positive on the sales and EPS momentum for the Korean companies. We believe Korean automakers, with their improving brand recognition, design competitiveness and cost advantage arising from Korea's free trade agreements with the US and the EU, are well positioned for a valuation rerating.

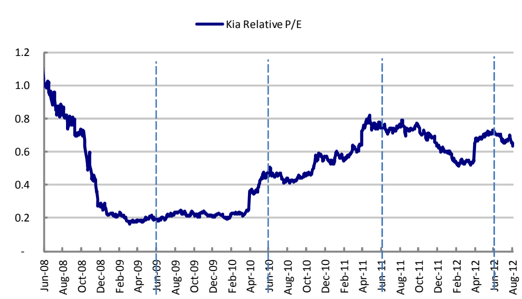
Figure 81: Hyundai Motors' relative PE trend



	CY06	CY07	CY08	CY09	CY10	CY11	CY12E	CY13E
DB EPS growth (%)	-34.1	-11.6	-14.2	104.5	17.6	37.5	20.3	11.1

Source: Bloomberg Finance LP, Deutsche Bank

Figure 82: Kia Motors' relative PE trend



DB EPS growth (%)

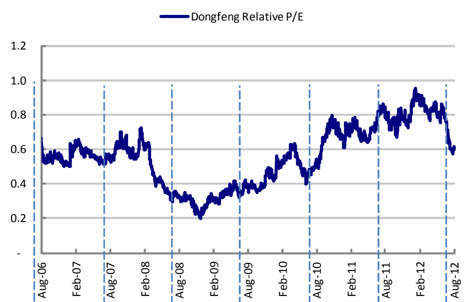
CY08	CY09	CY10	CY11	CY12E	CY13E
741.0%	1104.0%	-8.2%	25.0%	32.7%	13.7%

Source: Bloomberg Finance LP, Deutsche Bank

Chinese auto – Brilliance's premium likely reflects the attractiveness of its operating niche (luxury cars)

Among the Chinese companies, while Brilliance and Dongfeng consistently trade at a premium and discount to the market, respectively, Geely has been very volatile. Over the last one year, Brilliance has progressively derated, reflecting the market's nervousness about softening demand and price dynamics in the Chinese luxury car sector. Geely derated significantly in 2011, due to local brand sales underperformance vs. the market average. However, its discount has narrowed in 2012. Dongfeng's PE relative has remained in a narrow range of 0.7x-0.9x over the past 18 months.

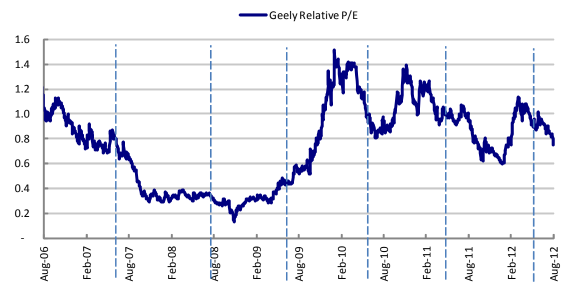
Figure 83: Dongfeng Motor's relative PE trend



	CY06	CY07	CY08	CY09	CY10	CY11	CY12E	CY13E
DB EPS growth (%)	4.7	39.3	21.7	58.0	75.7	-4.6	3.6	18.4

Source: Bloomberg Finance LP, Deutsche Bank

Figure 84: Geely Auto's relative PE trend

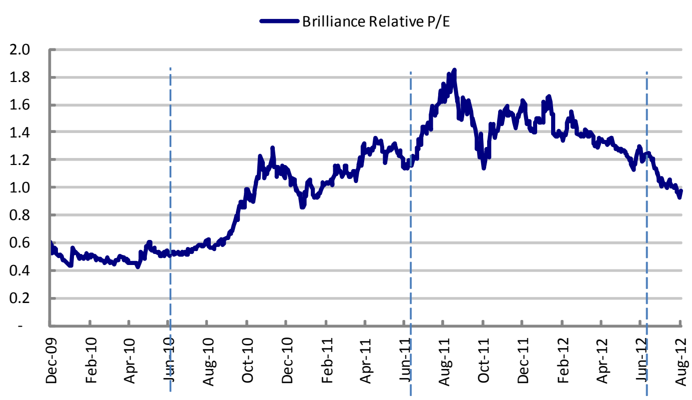


DB EPS growth (%)

CY06	CY07	CY08	CY09	CY10	CY11	CY12E	CY13E
83.9%	22.0%	136.5%	16.7%	2.9%	12.0%	17.0%	18.9%

Source: Bloomberg Finance LP, Deutsche Bank

Figure 85: Brilliance China's relative PE trend



DB EPS growth (%)

CY10	CY11	CY12E	CY13E
NM	42.9	23.6	25.7

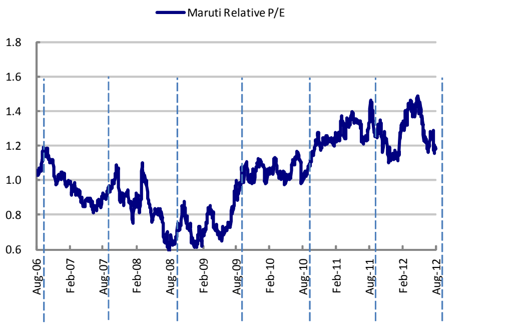
Source: Bloomberg Finance LP, Deutsche Bank

Indian autos – Maruti reaching close to the lower end of its PE relative

Over the last 18 months Maruti's PE relative has been volatile, reflecting the uncertainty in the two factors influencing its performance – the INR/Yen rate and demand for gasoline vehicles. The recent derating reflects the material impact of an appreciating Yen on Maruti's profitability (5% Yen appreciation means around a 12% fall in EPS). Mahindra's derating since November 2011 reflects the growing concerns on tractor growth in the medium term. Tractors account for c45% of Mahindra's EBIT in FY12.

Tata Motors' rerating since the beginning of CY11 reflects the improving performance of JLR and the success of Evoque. The substantial recent derating was due to a reset in the market's expectation of volume growth and margins following its 4QFY12 results.

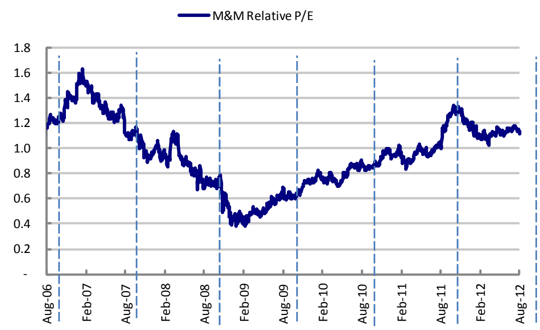
Figure 86: Maruti's relative PE trend



	FYMar07	FYMar08	FYMar09	FYMar10	FYMar11	FYMar12	FYMar13E	FYMar14E
DB EPS growth (%)	32.4	8.6	-17.9	79.0	-11.0	-26.8	24.1	21.8

Source: Bloomberg Finance LP, Deutsche Bank

Figure 87: M&M's relative PE trend

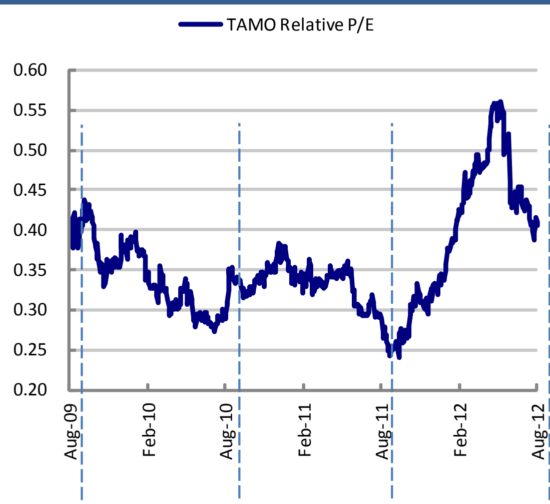


DB EPS growth (%)

FYMar07	FYMar08	FYMar09	FYMar10	FYMar11	FYMar12	FYMar13E	FYMar14E
43.4%	-2.0%	-3.6%	97.9%	17.3%	8.9%	3.5%	11.3%

Source: Bloomberg Finance LP, Deutsche Bank

Figure 88: Tata Motors' relative PE trend



	FYMar10	FYMar11	FYMar12	FYMar13E	FYMar14E
DB EPS growth (%)	NA	714.5	50.2	-0.5	1.4

Source: Bloomberg Finance LP, Deutsche Bank

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Appendix 1

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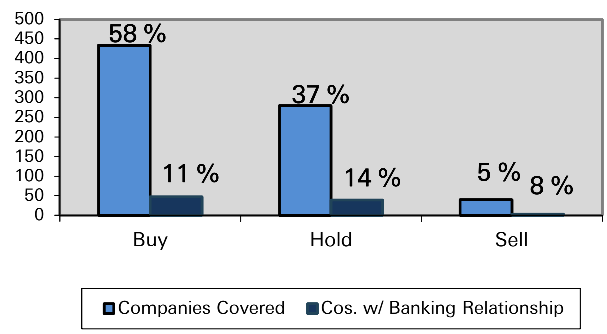

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