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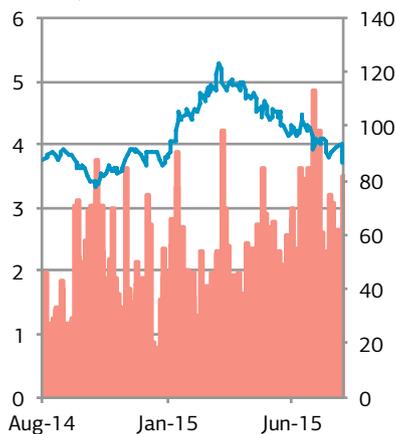
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BMW (BMW GR)

Price	EUR 86.81
Rating	SELL
Price Target	EUR 81.2
Difference	-6.5%
EPS 2015e	8.24
P/E	9.86x

BMW (BMW GR) last share price in EUR (blue) and volume (pink, in mln shares)



Source: Bloomberg, August 13, 2015

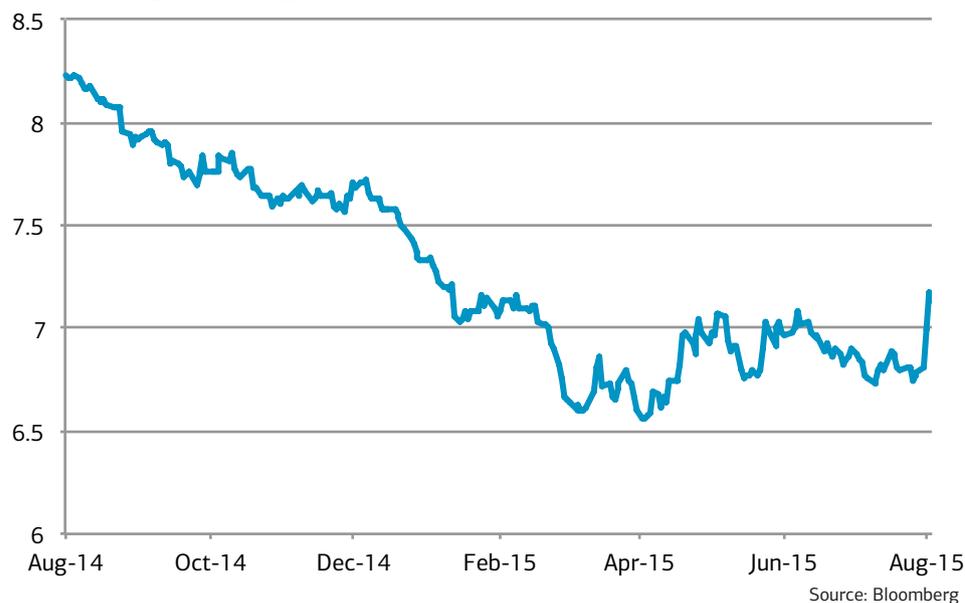
Bayerische Motoren Werke AG (BMW GR)

A Loser in RMB Depreciation

- ▶ **We believe that a 3% devaluation of the Renminbi** will drive down BMW's annual pre-tax income by 2.5%.
- ▶ **Based on a less attractive exchange rate**, we reduce our target price to EUR 81.2 from EUR 84.8 based on estimated 2015 EPS of EUR 8.24 and a 2015 P/E of 9.86.

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Chart 1. EUR/RMB



European luxury automakers are among the losers in the depreciation of the Renminbi exchange rate, which has declined by more than 4% since last week. BMW is no exception: the company derives an outsized portion of profit from China, and 19% of total revenue. Since the company has very few costs impacted by the exchange rate, the depreciation will move straight into the bottom line. We estimate that a 3% depreciation would mean a reduction of EUR 201 mln in pre-tax income, about 9.9% of total revenue. A decline of EUR 6 mln in profit from the JV entity for H2 would mean a 6.0% overall impact on the company in H2 and 2.5% for the whole year.

We estimate that a 3% depreciation would mean a reduction of EUR 201 mln in pre-tax income.

Table 1. Estimated Impact of RMB Depreciation on BMW's Pre-Tax Income (in RMB mln)

In EUR mln	2015e
Impact of RMB Depreciation	3.00%
Revenue from Mainland China	14,412
Decrease of Revenue	203
Shared Result from JV	479
Impact on Shared Result	6
Shared Result from JV after RMB Depreciation	473
Total Impact Before Tax	207
As % of Pre-Tax Income	2.50%

Source: Company data, Bloomberg, J Capital Research

We expect further devaluation, however, perhaps 10% this year, and a 10% depreciation would bring down overall company profit by 9.0% for 2015.

BMW does use hedging instruments, but there is not much disclosure. It is unlikely that hedging has taken into account a significant depreciation of the Renminbi, which has appreciated against the Euro since last year.

Table 2. Scenario Analysis on EPS

In EUR mln	Depreciation			
	2%	3%	5%	10%
Total Impact before Tax	131.2	207.1	345.2	690.5
Total Impact as % of Pre-Tax Income	1.60%	2.50%	4.10%	9.00%
EPS (EUR per Share)	8.31	8.24	8.09	7.74

Source: Company data, Bloomberg, J Capital Research

Valuation

We adjust our estimate of profit from BMW Brilliance to EUR 472 mln in 2015 based on our own estimate of H2 results. We believe there will be no improvement in BMW Brilliance sales in H2 and that profit will drop further as more subsidies and operating costs are expected.

Our target price of EUR 81.2 is derived from an estimated 2015 EPS of EUR 8.24, adjusted down from EUR 8.59 based on our base case assumption of a 3% depreciation against the Euro in 2015 and a P/E of 9.86, based on the median five-year PE ratio from Bloomberg.

Table 3. Our Estimate of BMW's Share in BMW Brilliance Profit

(in EUR mln)	H1 2015 Forecast	H1 2015 Actual	2015 Previous	2015 New
Shared Result from BMW Brilliance	314	285	620	472

Source: Company data, J Capital Research

Risks:

- ▶ BMW has fully hedged its position
- ▶ RMB appreciates after central bank intervention

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