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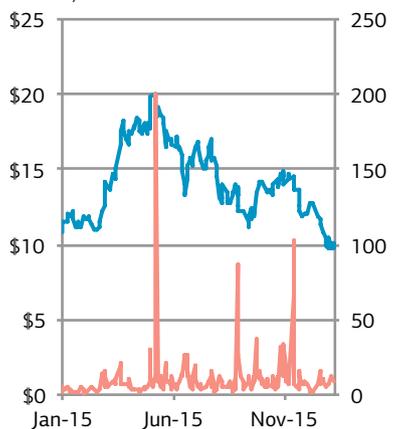
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Car Inc. (0699 HK)

Price	HKD 9.91
Rating	Closing Coverage
Price Target	HKD 10.20
Market Cap	HKD 24.41 bln
Avg. Volume	6.6 mln
Free Float	12x

Car Inc (0699 HK) last share price in HKD (blue) and volume (pink, in mln shares)



Source: Wind

Car Inc. (0699 HK) No One Behind the Wheel

- ▶ **Looming depreciation of the Renminbi** could impact Car Inc.'s earnings. A 15% devaluation would increase interest costs by USD 8 mln annually.
- ▶ **Shareholders are selling.** Warburg Pincus and Hertz have sold heavily, and this appears to signal that investors are turning negative on the company.
- ▶ **We believe Car Inc.** and its partially owned affiliate UCar suffer from weak corporate governance.
- ▶ **Capital is now pouring** into car services, and this generates stiff competition for Car Inc.
- ▶ **We are closing coverage** on Car Inc., which is down 30.83% since our initiation, somewhat more than the Hang Seng.

The USD borrowings will add RMB 30 mln in interest cost yearly.

Burning Through Money

In 2015, Car Inc. issued 800 mln in bonds, adding to RMB 4.3 bln in bank debt. RMB 1.9 bln of the bank debt is guaranteed by Lenovo.

- ▶ In January 2015, Car Inc. issued a USD 500 mln five-year note at a rate of 6.125%.
- ▶ A half-year later, in August, the company issued another USD 300 mln 5.5-year note at a rate of 6%.

The USD borrowings will add RMB 310 mln in interest cost yearly. If the Renminbi should depreciate by 15%, interest cost to Car Inc. would increase by RMB 46 mln.

Given that Car Inc.'s operating cash flow in 2014 was negative RMB 1 bln, the company is at risk of running through its money in less than three years.

Exodus

Major shareholders are selling Car Inc. Warburg Pincus started selling in May and [stated](#) that they would continue selling shares in order to invest in the electric car industry, with BYD being one potential target. Hertz reduced its shareholding twice in 2015 and sold 5.56% of its shareholdings in the company. We take this as a signal that shareholders are turning negative on Car Inc.

Table 1. Shareholders Turn Negative

Shareholders	2015/6/30	2014/12/31	Change in Shareholdings
Grand Union Investment Fund L.P.	29.02%	29.20%	-0.18%
Hertz Holdings Netherlands B.V.	16.13%	16.20%	-0.07%
Haode Group Inc.	12.41%	12.50%	-0.09%
Amber Gem Holdings Limited (Warburg)	11.07%	18.30%	-7.23%
Sky Sleek Limited	2.26%	2.30%	-0.04%

Source: Wind

Weak Governance

Our interviews indicate that Car Inc. works very closely with its 10% subsidiary UCar and that in some sense one acts as a division of the other. But UCar by reports is exceedingly poorly managed. There is high turn-

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over of drivers and reports of unfair treatment of employees. The company requires drivers to [make large deposits](#) and then reportedly deducts fines and expenses from those deposits. Ex-employees of Ucar [have also told](#) the media Ucar does not ensure their cars.

We note that Mr. Hui Li has resigned from his position as an independent non-executive director, a member of the audit and compliance committee, chairman of the nominating committee, and a member of the remuneration committee of Car Inc. Hui Li was [recommended](#) by Warburg.

Competition

Taxi hailing services are in a price war to gain market share, and those with greater support have a higher chance to win. Uber announced in January that its China division had raised another USD 1 bln, and the company embarked on a restructuring plan aiming to IPO on the Mainland. But given current weak equity and bond markets, we believe Uber will fail to raise the planned capital. This will be doubly true once the new policy allowing more or less unhampered access to IPOs is implemented.

Closing Coverage

We are closing coverage on Car Inc, which now is trading below our price target. Car Inc is down 30.83% since our initiation vs 27% drop for The Hang Seng China Enterprise index.

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