

October 13, 2017
Company Initiation

Jeff Dorr
jeff@jcapitalresearch.com

+852 5223 8703

Bitauto Holdings (BITA US)

Price	USD 49.51
Market Cap	USD 3.5 bln
Trailing P/E	NA
Avg. Volume	780,000

Bitauto Holdings (BITA US)
last share price in USD (left, blue) and
volume in mln shares (right, pink)



Source: Bloomberg October 11, 2017

Bitauto Holdings (BITA US)

Why We'd Be BITA Buyers

► **The Yixin bump:**

Since 2015, Bitauto has been investing heavily in building a transaction business for autos called Yixin, which is 48% owned but fully consolidated. Yixin has a good chance of a separate IPO this year or next. If that happens, Bitauto could get a bump in valuation.

► **Slouching toward profit:**

Yixin has been loss-making, but the business is gaining scale and appears to be reaching profitability. Management guided 10-15% net margins for the business in early stage and 20% net margins over the long haul. So even if BITA holds onto Yixin, the subsidiary offers a tailwind.

► **Could be ~15%:**

Bitauto's market cap is just over USD 3.5 bln. In Q1 2017, Yixin completed another round of fundraising, which valued the company at USD 3.5-4.0 bln. [Rumors](#) are circulating that Yixin may go public for USD 5 bln, perhaps at the end of 2017. If this occurs, Bitauto would earn USD 2.5 bln from the event. This leaves the question – is the rest of Bitauto's business worth only USD 1 bln?

► **Stub business around USD 1.5 bln:**

We think it's worth more. BITA should have a net margin ex-Yixin of about 14%. By 2018, advertising and subscription sales will probably reach around RMB 4-4.5 bln, and the digital marketing business might reach RMB 1-1.3 bln. Assuming a conservative 15x multiple, this implies a value for the stub business of USD 1.5 bln

► **In the long run, hard to say:**

Ultimately, competitor Autohome may be a stronger business. We like Bitauto for the near-term opportunity but, in the longer term, we are still undecided.

October 13, 2017

Tencent and JD know how to ensure a high-priced IPO.

BITA-Sweet

Largely ignored because it makes losses, Bitauto, an auto information and sales platform, is improving its margins in a sales environment that could be resistant to downturns in auto sales. And the company could benefit from an IPO of its subsidiary Yixin.

After several rounds of financing, Yixin today is the leading internet auto financing platform in China. Although Yixin is fully consolidated into BITA's financials, Bitauto owns only a 48% stake on a fully diluted basis. The other main shareholders in Yixin are Tencent and JD.com, which owned 25% and 15% respectively at yearend 2016. Baidu owns another ~4%.

These powerful investors know how to ensure an IPO. In Q1 this year, Yixin raised another RMB 4 bln from Bitauto, Tencent, China Orient AMC International, and Wei Wong, the founder of Shunfeng Express. For that round, Yixin came in at a valuation of USD 3.5-4.0 bln. [Rumors](#) are circulating that Yixin may go public for USD 5 bln, perhaps at the end of 2017. If this occurs, Bitauto would earn USD 2.5 bln from the event. This leaves the question – is the rest of Bitauto's business worth only USD 1 bln?

We think it's worth more. BITA should have a net margin ex-Yixin of about 14%. By 2018, advertising and subscription sales will probably reach around RMB 4-4.5 bln, and the digital marketing business might reach RMB 1-1.3 bln. Assuming a conservative 15x multiple, this implies a value for the stub business of USD 1.5 bln.

All About Bita

BITA has traditionally operated an auto “vertical” website that offers consumers auto reviews, information on pricing, discussion for a, and dealer information. Within the industry, BITA has operated as the No. 2 player, taking a back seat to market leader Autohome (ATHM US), whose superior editorial content has historically earned it leading metrics in average daily users, average time spent per user, and average daily page views. According to iResearch, autohome.com.cn had an average of 7.4 mln unique visitors per day in 2016, more than any other auto vertical website. More importantly, users spent ~16.2 minutes per day on Autohome, approximately twice that of BITA.¹

¹ Autohome 2016 AR

October 13, 2017

PC Auto (private) is reportedly the No. 3 player in the auto verticals category.

As an advertising category, the auto vertical business competes with offline advertising (television, radio, and newspapers) as well online advertising on internet portals like Sina, Sohu, and Qihu 360 as well as social media like WeChat. For OEM advertisers, however, auto vertical websites such as BITA and ATHM can provide the highest ROI among advertising choices, since consumers typically visit these sites specifically to obtain detailed information about autos prior to making a purchase. When auto sales slow or competition increases, automakers maintain or increase spending on these types of platforms because they convert ad spend into sales.

Segments

BITA's traditional business is a platform that provides information on autos – including reviews, forums, ratings, and comparisons.

Advertising

Before entering the auto financing business in 2015, BITA's core business consisted of advertising and digital marketing/consulting. BITA contracts with ad agencies to place OEM auto ads on BITA's websites/mobile apps. In China, it is standard practice for auto OEMs to subcontract their advertising campaigns to ad agencies, and these agencies are responsible for bidding out advertising contracts to different platforms and managing ROI metrics.

Within the advertising segment, a second source of income includes subscriptions sold to auto dealers. These subscriptions enable auto dealers to generate leads by creating their own virtual showrooms on BITA's website/apps and showing consumers their current inventory, prices, and promotional events.

In most recent quarters, this business has been growing in the high single digits.

Digital Marketing

BITA's digital marketing business is essentially digital agency serving automakers. This group consults with OEMs and helps automakers decide where to allocate their ad budgets on third-party websites as well as BITA's own websites. In recent quarters, the group gained a few big customers, including Dongfeng Nissan, which has boosted growth. Increasing spend from some existing customers has also boosted margins for the segment.

October 13, 2017

The traditional advertising and listings business has been growing in the high single digits, with EBIT margins in the 20% range.

Transaction services: Yixin

Transaction services, a lending and transaction facility for car buyers, is Bitauto's fastest-growing business and one that is now nearing profitability after several years of losses. Formed in August 2014, Yixin received an injection of RMB 2.5 bln from Tencent, JD.com, and BITA in early 2015. In August 2016, Tencent, Baidu, JD.com further invested USD 550 mln.² Yixin launched the "Daikuan" ("loan") website in January 2016³ and also provides the automobile channel on JD Finance's car.baitiao.com. In May 2017, Bitauto injected the used-car site Taoche.com into Yixin.⁴ Taoche.com now serves as a platform where consumers can purchase new and used cars and compare third-party financing and leasing terms.⁵ Going forward, Taoche.com will be the major brand for Bitauto's transaction business.

Auto financing in China is growing quickly. In 2016, about 30-35% of auto buyers bought on credit, compared with 20% in 2015. This compares to about 80% penetration in the United States.⁶ Yixin's CEO, Zhang Xu'An, estimates that, in 2017, some 45% of buyers will use financing to purchase autos.⁷ That is consistent with our research on the topic and represents a rapid rise in financing.

Yixin makes loans for both new and used cars, with the split roughly 60% used cars and 40% new cars.⁸ Yixin began with just financing and leasing capability, but it is adding agency sales of auto insurance and standardized aftermarket services.

BITA reportedly has about 16 years of information and data on various models of cars, as well as a broad user base.⁹ When a user goes to the Yixin platform, he/she can enter income, age, what car they'd like to purchase, and other information. Yixin will then sift through this data and select financing options for that customer and then allow the consumer to choose one. Yixin can also make loans to consumers from its own balance sheet.

Users can also purchase insurance to go along with their new car – as of

² http://finance.qq.com/original/zibenlun/yixin_abs.html

³ <https://aimgroup.com/2017/06/21/yixin-group-and-jd-com-co-launch-transaction-and-financing-site/>

⁴ 2017 Q2 Transcript

⁵ <https://aimgroup.com/2017/08/16/q2-results-bring-bitautos-transformation-into-focus/>

⁶ Q3 2016 Transcript

⁷ http://finance.qq.com/original/zibenlun/yixin_abs.html

⁸ Q3 2016 Transcript

⁹ <http://xfjr.hexun.com/2017-05-27/189380533.html>

October 13, 2017

May 2017, Yixin reportedly had relationships with PICC, Taiping Insurance, CCIC Insurance, AXA China, Sunshine Insurance, China Insurance Group, and Bank of China.¹⁰

Gaining in Profitability

While profitability for Yixin has dragged on overall performance, the other segments of the business have held up relatively well and remain solidly profitable, earning EBIT margins in the 20% range.

Table 1. EBIT Margins by Segment

BITA Ebit margin	2014	2015	2016
Ad & subscription business	27%	18%	17%
Transaction service business	-155%	-159%	-55%
Digital marketing	16%	8%	19%
Total	20%	-11%	-2%

Source: Annual Report

Table 2. Ebitda Margins by Segment

BITA EBITDA margin	2014	2015	2016
Ad & subscription business	29%	20%	19%
Transaction service business	-150%	-46%	-15%
Digital marketing	18%	9%	20%
Total	22%	8%	10%

Source: Annual Report

And profitability is improving at Yixin, due to increasing scale and a shift toward allowing third-party lenders (such as ICBC and Bank of Agriculture) to make loans to auto consumers transacting on Yixin's platform. Yixin completed roughly 260,000 transactions in 2016 and for the full year of 2017, management is targeting 400,000 transactions.¹¹ As the business scales, profits are improving.

¹⁰ <http://xfjr.hexun.com/2017-05-27/189380533.html>

¹¹ Q4 2016 Transcript

October 13, 2017

Transaction services are the drag on earnings but, after several years of losses, Yixin is nearing profitability. And, given the hopes for an IPO, we can be sure the business will be looking strong.

Yixin's margins are also higher on transactions where it acts as a platform for third-party lenders rather than lending off its own balance sheet. Yixin is partnering with other lenders by letting them transact on Yixin's platform. These platform revenues represent only ~25% of Yixin's transaction volume currently, but management is looking to increase this to around half of total volume by 2018.¹² Management has indicated that net margins with platform lending are mostly likely ~30%, compared to 20% margins when BITA does lending on balance sheet.

Yet another driver of future profitability could be insurance sales. According to management, "...Most of the proceeds and the profits are met by the distribution channels within [insurance]..."¹³ We believe management is stating its intent to distribute insurance via Yixin to capture additional margin on the platform.

Management has also been transparent about divesting some loss-making businesses from Yixin, which should help boost margins beginning in Q3 2017. Specifically, management is divesting the Huimaiche business in Q2 2017. Huimaiche was focused on creating a bidding system between consumers wanting to purchase cars with certain specifications, and dealerships competitively offering prices on cars that matched those consumer demands. Huimaiche lost RMB 100 mln in H1 and RMB 200 mln for the full year 2016. Considering Yixin lost RMB 850 mln in 2016, a reduction of RMB 200 mln to that loss is a substantial step in putting the transaction services business in the black.

Can Yixin's growth help BITA's advertising business?

Yixin's profitability is rapidly improving due to scale and a shift in business mix, but we also suspect that as consumers increasingly transact through BITA, advertisers and dealerships may take notice and increase some of their ad budget to Bitauto. While BITA's headlines today are mostly about Yixin, investors may be overlooking the possibility that increasing transactions on BITA's platform might enhance the company's ad and digital marketing businesses. The most compelling argument for advertisers engaging on auto vertical websites (i.e. BITA and ATHM) is that consumers come to these sites with the intention of purchase, as management describes here:

"... What we are seeing is that the OEMs are dealers, especially in

¹² Q4 2016 Transcript

¹³ Q4 2016 Transcript

October 13, 2017

a softer auto sales market today. They very much welcome cost effective channels to help them promote sales. And as a result, the auto verticals are not losing market share, but also defending or adding to our market share ... because we attract users that are in the mind to purchase. They're looking for auto information because they're ready to buy a car in the next few months ...

... Traditional online media with features or properties that make it difficult for them to pin down a value on their promotional capability is beginning to lose budget allocation towards social media ... In the vertical space, in the medium to long term, we are in a position to keep or strengthen our market share ...”

BITA CEO, Q2 2017 Transcript

We suspect that if Yixin can continue bringing customers to transact on BITA’s websites, OEMs and dealerships might be more willing to allocate more advertising budget to Bitauto.

Splitting Off Yixin

Critical alliances with Tencent and JD

Yixin’s cooperation with JD is extensive. In April 2015, JD granted Bitauto a five-year, exclusive right to operate JD’s autos businesses, which include sale of autos (new and used) on JD Mall, Paipai, and mobile apps plus provision of advertising services on JD’s car channels inside China. JD agreed to provide traffic support, big data analysis, and tech infrastructure. During the five-year period, JD has agreed to refrain from selling autos or offering advertising services related to autos in mainland China. JD also can’t allow any third-party merchants other than Bitauto to operate auto business on its platform.

Low Funding Cost

As a lender, Yixin claims several advantages. Funding costs, and those of partners lending on Yixin’s platform, are 4-5% per annum, reportedly half competitors’ normal funding cost, which is typically 8-10% per annum according to management.¹⁴

“... I’ll say 99.9% of my competitors are not enjoying the same funding cost as Yixin is enjoying, not only on its own balance sheet’s

¹⁴ 2017 Q1 Transcript

October 13, 2017

Yixin makes more money when it acts as a platform for third-party lenders. A red flag is its practice of using agents to push out loans, with poor incentives to ensure that the loans are sound.

perspective, but also on the collaborations with the banks. So, banks see your status, banks see your capability of managing these assets, banks see your capability of limiting the defaults on these assets, banks believes in your capability on risk managing these assets or while sourcing out these deals. So, therefore, the rates that they provide to work with you compared to the rates that they provide to work with anybody else in the market will also be much lower...

...Yixin's so-called its own funding cost plus the funding cost of any partners, whose money will be extended eventually to the consumers and that will be on their balance sheet, will still be almost half of what all my competitors are receiving right now. The normal funding cost for the competitors is between 8% to 10% per annum, but for Yixin, the blended is approximately between 4% to 5% per annum. So this is also a significant, significant advantage over all my competitors out there in the market..."

BITA CFO, Q1 2017 Transcript

"... On the pure asset side, the cost of funding for Yixin is between 4% to 6% per annum. So this is particularly low compared to a lot of my competitors for a few different reasons. The main reason being Yixin is a very profitable company. And secondly is that the asset that we accumulate are really top-notch assets which has less than 0.5% of the late payments or delayed payments, so in this industry we're about 20% of where the industry average is on those fronts. So good quality assets, profitability, profitable company, will give you the status among the investors on the asset side as well as the interest coming from the bank end, so therefore that's why we're able to sustain such a low cost of funding..."

BITA CFO, Q2 2016 Transcript

Media sources generally indicate that Yixin's rates are the lowest available. For instance, on loans where collateral is placed on the borrower's existing vehicle, Yixin is reportedly charging 0.88% interest rates, vs. 1.33% for most competitors.¹⁵ On more standardized installment plans, Yixin's rates are reportedly less competitive, at 0.48% per month, vs 0.4% for some competitors.¹⁶ Access to credit gives Yixin its market dominance. Yixin claims

¹⁵ <http://xfjr.hexun.com/2017-05-27/189380533.html>

¹⁶ <http://xfjr.hexun.com/2017-05-27/189380533.html>

October 13, 2017

that the default rate on leases is less than 0.1%, an advantage that the company attributes to data from JD, Tencent, and Baidu. More likely, these low default rates are related to Yixin's exploding loan growth.

Yixin's Financial Partners

As of Q3 2016, BITA management claimed it had some 10-20 different banks and financial institutions extending loans and leases to consumers.¹⁷ Some of the larger financial partners including ICBC, Bank of Agriculture, Huatai Insurance, and Zhongtai Securities.¹⁸ These partners are important relationships for future growth because Yixin's own lending capacity is capped by its registered capital.

Yixin's relationship with some of these financial partners also allows it to replenish its capital base (and de-risk the balance sheet) by issuing asset-backed securities that are non-recourse to BITA. To date Yixin has raised an estimated RMB 9.3 bln RMB (~USD 1.4 bln) in this manner.¹⁹

Distribution

Building up Yixin requires investing in customer acquisition, in loan capital, and in connecting with physical dealerships. While Yixin benefits from BITA's traffic and balance sheet, Yixin also benefits via BITA's relationships with China's roughly 25,000 OEM car dealers. As of Q1 2017, Yixin was linked to only 6,000 or 7,000 dealers, but the company is targeting 10,000 by the end of 2017. A second point of physical distribution is via dealerships which get their inventory from other distributors, rather than OEMs. Bitauto estimates there are several thousand of these. Yixin's final point of distribution is its own franchised locations, of which it had ~100 in Q1 2017 and hopes to expand to 250 by end of 2017, and 500-1,000 by end of year 2018. These franchised locations reportedly will not require capex from Bitauto.

¹⁷ Q3 2016 Transcript

¹⁸ https://www.google.com.hk/url?sa=t&rct=j&q=&esrc=s&source=web&cd=2&cad=rja&uact=8&ved=0ahUKEwjWu8_gweLWAhUFo5QKHcyND4UQFggtMAE&url=http%3A%2F%2Fifenxi.com%2Farchives%2F1581&usg=AOvVaw2tuDLd6OLvmvHjriirAKP

¹⁹ <https://aimgroup.com/2017/09/19/yixin-group-launches-major-advertising-campaign/>

Yixin's Risks

A Shift toward Collateral Loans

Media sources indicate Yixin engages principally in two different types of loans. Of the roughly RMB 20 bln in loans Yixin issued in 2016, an estimated RMB 17 bln were standard auto loans where consumers make payments in installments with interest. The remaining RMB 3 bln were “collateral loans”, where consumers use existing autos as collateral for new purchases. In 2017, growth in standard installment agreements may be slowing, and loan growth may be increasingly coming from “collateral loans.”²⁰

Collateral Loans and Yixin's Intermediaries

Yixin appears to be aggressively employing agents to distribute collateral loans. More concerning, Yixin is putting ads in WeChat to recruit intermediaries to help the company distribute such loans.²¹ Yixin is also charging lower rates for these types of “collateral loans” relative to the competition.

While Yixin has generally has an upper hand with superior rates and broad coverage, loose control over intermediaries/ reps can cause problems. First, the top and bottom tiers of agents will sometimes compete against one another. Second, the reps don't necessarily care about the quality of loans. To avoid risk, Yixin makes agents pay into a “risk fund” for every loan that they issue, but it's unclear whether the risk funds sufficiently compensate for real risks undertaken.

Yixin's “Drive Away” Program

Yixin engages in a car leasing program it calls “Kai Zou Ba”, which translates to “Drive Away”. Consumers put down as little as a RMB 10,000 deposit and can drive a car home then keep it by paying RMB 1,000-2,000 rental fee. At the end of the year, the consumer can change vehicles or buy the car under a 36-month payment plan. Yixin's popular “Kai Zou Ba” campaign can be seen all across China and is probably the most popular product at Yixin's offline physical “experience” stores.

At universities, Yixin is reportedly offering zero downpayment programs to graduating students who agree to pay RMB 1,288 per month. Yixin's competitors offer similar terms, but media sources claim that a major difference is that Yixin actually owns a significant portion of the cars that it

²⁰ <http://xfjr.hexun.com/2017-05-27/189380533.html>

²¹ <http://xfjr.hexun.com/2017-05-27/189380533.html>

October 13, 2017

leases out.²² In 2016, for instance, Yixin is reported to have purchased 20,000 Haima-branded cars.²³ Media sources point to a 2017 speech where Yixin's COO claimed that Yixin would be purchasing some 100,000 vehicles this year.²⁴

Yixin's Competition

Yixin differs from competitors in terms of its scale and breadth – Yixin sells both new and used cars, and interfaces with both OEMs and dealerships. In addition to providing financing, it also looking to expand into insurance and aftermarket services.

Souche (搜车)

Launched Tangeche.com (弹个车) in 2017. Tangeche is a JV with Ant Financial. Based in Hangzhou this vehicle financing business targets young consumers with low down payments and extended repayment periods. Tangeche focuses on used cars. Tangeche is reportedly targeting 100,000 auto transactions by 2017 year end, vs. ~400,000 for Yixin.²⁵ It appears that Tangeche appeals to a younger demographic than Yixin. Tangeche reportedly requires down-payment terms as low as 10%, vs. 30% for the industry norm.

Guazi.com

58.com (WUBA US) held a 34% stake on a fully diluted basis as of December 2016. Guazi is strictly for used cars, while BITA focuses on financing products for both used and new cars. Guazi is China's leading C2C, used auto platform. It uses big data to determine a consumer's credit score, before providing financing. Pre-credit assessment is supported by Tencent's WeBank and Baidu Finance.²⁶ Down payments can be as low as 10%. Guazi was reportedly valued at USD 1 bln in its Series A funding round in September 2016, though it completed a Series B funding round led by Sequoia in June 2017.²⁷

In the long run,
will BITA beat
Autohome?
Hard to say.
But for now,
the Yixin
division makes
BITA look
good.

²² <http://xfjr.hexun.com/2017-05-27/189380533.html>

²³ <http://www.haima.com/index.html>

²⁴ <http://xfjr.hexun.com/2017-05-27/189380533.html>

²⁵ <https://www.dealstreetasia.com/stories/chinas-souche-com-receives-180m-in-warburg-led-series-d-round-69734/>; Q4 2016 Transcript

²⁶ <https://aimgroup.com/2017/07/17/guazi-launches-financial-leasing-platform/>

²⁷ <https://www.chinamoneynetwork.com/2017/06/15/sequoia-leads-400m-new-round-in-chinese-used-car-trading-firm-guazi>

October 13, 2017

Autohome or Bitauto?

Although Autohome today lacks a strong presence in the auto finance business, its OEM advertising and dealership advertising businesses are stronger than those of Bitauto.

Autohome is pivoting toward a platform model more similar to Bitauto's strategy, but implementation is still in the early innings. Autohome breaks apart revenue from dealerships, called "leads generation services," from revenue from OEMs, which place ads on Autohome's website. Bitauto, on the other hand, lumps both these categories into its "Ad business" segment. Autohome's third business division, called "online marketplace," involves buying autos as inventory and reselling them online. This business venture, while sizable in revenue, is low-margin for Autohome and is currently being wound down. In the latest quarter, Autohome booked only RMB 103 mln in sales in this segment.²⁸

Table 3. BITA vs ATHM in the Traditional OEM Ad and Dealer subscription business

Bitauto Revenue	2014	2015	2016
Ad business (text, banner, video, bitauto.com/taoche.com + dealership subs)	2,163,909	3,106,025	3,432,986
Transaction services (dealership commissions, interest income, commissions from financial partners)	77,565	664,225	1,551,676
Digital marketing and consulting	376,365	483,945	788,286
Total	2,617,839	4,254,195	5,772,948
Autohome Revenue	2014	2015	2016
Media services (banner ads, links, logos, others over periods of time)	1,287,437	1,878,397	2,347,626
Leads generation services	839,778	1,403,892	1,916,445
Online marketplace	5,734	181,686	1,697,550
Total	2,132,949	3,463,975	5,961,621

Source: Company Annual Reports

²⁸ Autohome Q2 2017 Transcript

October 13, 2017

Bitauto's "Ad business" segment is analogous to Autohome's media services (OEM advertising) and leads generation businesses (dealership subscriptions) combined. While both service 75-80 OEMs and roughly 24,000 dealers, Autohome has historically generated superior margins and growth relative to Bitauto on account of its larger and stickier customer base. Dealerships source a higher portion of online sales leads from Autohome, which allows Autohome to command better pricing and margins.

On the Q2 2017 earnings call, Autohome management described gross margins in media services and leads generation as hovering around the 85% mark:

"... Excluding the impact from the direct sales business, gross margin from our core business was 84.6% in second quarter versus 84.4% in the same quarter last year..."

CFO, Q2 2017 Transcript

This compares favorably to BITA, which generates roughly 60-75% gross margins in this area.

Table 4. BitAuto Gross Margin

BitAuto Gross margin	2014	2015	2016
Ad & subscription business	80%	75%	74%
Transaction service business	26%	36%	43%
Digital marketing	54%	46%	61%
Total	74%	66%	64%

Source: Annual Report

Autohome does not disclose operating margins by segment, but in general, OP margins are also superior for Autohome. Prior to ATHM's ramp up of the low-margin direct sales business, operating margins in 2014 and 2015 were in the 35-40% range. Again, this compares favorably to BITA's margins in the core OEM ad and dealership subscription business, which historically have averaged in the 20-30% range (see "ad & subscription business").

Autohome's Financing Efforts

While Autohome competes directly with BITA in the OEM advertising and dealer subscription businesses, Autohome appears to be just getting under

October 13, 2017

way in offering financing to consumers. Management has not begun to shed specific insight into the relative size of the business, but with Ping'An as Autohome's majority shareholder we expect that auto financing will be an important driver going forward. For now at least, BITA maintains a decisive lead:

"... Auto finance is an integral part of our 4+1 strategy. And used car ecommerce is also a very important element in our bigger e-commerce platform... Now with regard to auto finance, again, those are not auto finance off shelf as you see any banks and other financial institutions, those are tailored to customize finish products ... The only thing I can say is that, in 2017, our biggest priority is to make sure we graft the right model ... We are not actually putting any number behind it ... We do think in 2018, which is about 12 months from now, those business will be comp pillars of our future growth ..."

President, Autohome Q4 2016 Earnings Call

Summary

We like Bitauto for the near-term opportunity represented by growth and a potential break-off of the financing business. Going forward, the competition between Autohome and Bitauto is a close call, and it's hard to know whether the market will support both.

October 13, 2017

Disclaimer

This publication is prepared by J Capital Research Limited (“J Capital”), a Hong Kong registered company. J Capital is registered as an investment adviser with the U.S. SEC (CRD# 165324). This publication is distributed solely to authorized recipients and clients of J Capital for their general use in accordance with the terms and conditions of a Services Agreement and the J Capital Authorized User Content Agreement available [here](#). Unauthorized copying or distribution is prohibited. If you are reading this publication without having entered into a Services Agreement with J Capital, or having received written authorization to do so, you hereby agree to be bound by the J Capital Non-Authorized User Content Agreement that can be viewed [here](#). J Capital does not do business with companies covered in its publications, and nothing in this publication should be construed as a solicitation to buy or sell any security or product. In preparing this document, J Capital did not take into account the investment objectives, financial situation and particular needs of the reader. This publication is intended by J Capital only to be used by investment professionals. Before making an investment decision, the reader needs to consider, with or without the assistance of an adviser, whether the contents are appropriate in light of their particular investment needs, objectives and financial circumstances. J Capital accepts no liability whatsoever for any direct, indirect, consequential or other loss arising from any use of this publication and/or further communication in relation to this document.