

## Equities

14 March 2011 | 6 pages

# Yulon Motor (2201.TW)

## Alert: Impacts from Japan's Earthquake

According to a Bloomberg report (12 March), Nissan had four factories and two offices that suffered minor damages during the earthquake. This is likely a key reason why Yulon Motor's share price was hit hard today. Toyota, on the other hand, seems to have been impacted harder as it will suspend production at all 12 of its factories in Japan as well as its body makers on 14 March.

Based on our checks with management, the impact to Yulon Motor could be limited in the near term, as: 1) Yulon Motor still has about one month of inventory on hand (including engine and parts), so production will not be affected in Taiwan; and 2) most of the parts could be bought from Fengshen or Dongfeng Nissan from China.

Yulon Motor's own brand, Luxgen, could be a beneficiary as: 1) all of Luxgen's parts are domestically made; and 2) consumers in Taiwan that are unwilling to wait (as a result of the production delay of parts from Japan), will probably make a switch to Luxgen, in our view.

Yulon Motor (2201.TW; NT\$54.50; 1M)

### ■ Company Update

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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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## Yulon Motor

### Valuation

Our target price for Yulon Motor of NT\$82 is based on a sum-of-the-parts valuation approach. For the core business, we use a DCF-based valuation to reflect the company's capability to generate stable cash flows. We apply a cost of equity of 9.3%, which assumes a risk free rate of 2%, a market risk premium of 7.0%, and an equity beta of 1.1. We mark its listed investments to market value and apply a 20% discount for any downcycle or event risks. For its idle land assets, on conservative assumptions, we have used the market value for the raw land at 20% discount, as opposed to the development value.

### Risks

We rate Yulon Motor Medium Risk in accordance with our quantitative risk rating system, which tracks the stock's 260-day historical volatility. Key downside risks to our target price include: 1) Worse-than-expected domestic auto sales; 2) Worse-than-expected auto sales in China; 3) Slower-than-expected production of autos in China; and 4) Slower-than-expected launch of new models.

## Appendix A-1

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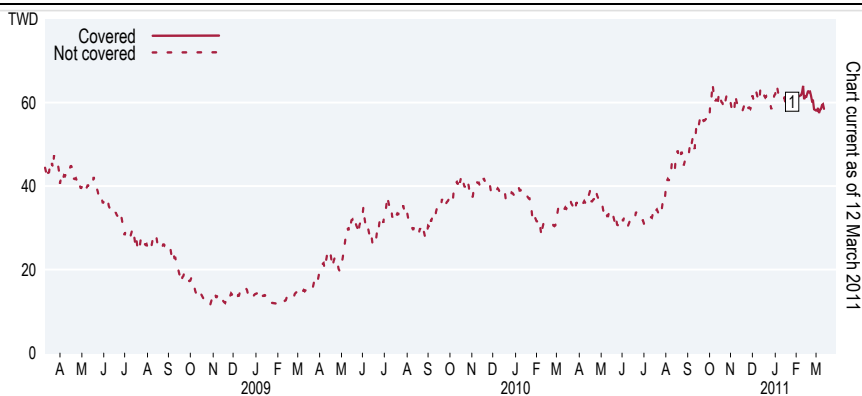
#### Yulon Motor (2201.TW)

#### Ratings and Target Price History

#### Fundamental Research

Analyst: Dave Chiou

Covered since January 26 2011



Date	Rating	Target Price	Closing Price
1 26-Jan-11	*1M	*82.00	60.40

\* Indicates change

Rating/target price changes above reflect Eastern Standard Time

## Yulon Motor (2201.TW)

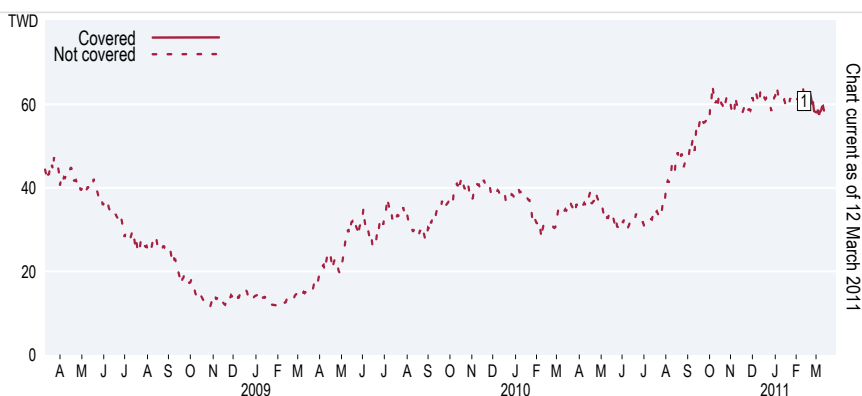
### Ratings and Target Price History

#### Best Ideas Research

#### Relative Call (3 Month)

Analyst: Dave Chiou

Covered since January 26 2011



Date	Rating	Target Price	Closing Price
11-Feb-11	*ADD MP	-	60.80

\* Indicates change

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#### Data current as of 31 Dec 2010

Citi Investment Research & Analysis Global Fundamental Coverage

% of companies in each rating category that are investment banking clients

12 Month Rating			Relative Rating		
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52%	37%	11%	0%	100%	0%
45%	44%	40%	0%	44%	0%

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