



GNAM Investment Competition

Renmin School of Business

China Anhui Jianghuai Automobile Co., Ltd

October 31st, 2015

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中國人民大學
RENMIN UNIVERSITY OF CHINA

商学院
SCHOOL OF BUSINESS

MBA
Since 1990

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Aim of China's New Energy Vehicle Strategy and Background

Government Policy to promote New Energy Vehicles

China Anhui Jianghuai Automobile Co., Ltd , Coompany Profile

List of abbreviations:

- China Anhui Jianghuai Automobile Co., Ltd = JAC
- New Energy Vehicle = NEV
- Pure Energy Vehicle = PEV



Aim of China's New Energy Vehicle Strategy and Background

Aim for 2020



“The number of NEV in China shall amount to **2,000,000 in 2020.**”

China today

Pollution



Dependency on Petroleum



Foreign companies dominate the non-NEV sector.



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Government policy: Strengthen the infrastructure for NEV



Charging stations will be built for at least 5 million electric cars by 2025.



At least 10% of public parking areas shall have an electric charger.

Government policy: Subsidies for NEV buyers

Governmental subsidies for NEVs



45%

55%

The **Chinese Government** will pay **45 %** of the price for a New Energy Vehicle.

Due to the subsidies, the **consumer** pays **55 %** of the price for a New Energy Vehicle.



- There is **no license plate restriction** for New Energy Vehicles. (For non-NEV it can take up to several years to get a license plate in China.)

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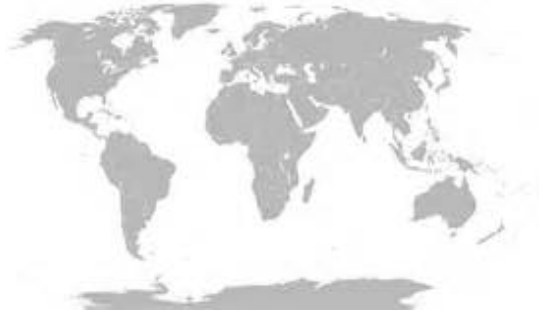
Profile of China Anhui Jianghuai Automobile Co., Ltd

Company



- JAC is a SOE located in Hefei, China.
- JAC is an automobile and vehicle manufacturer.
- JAC ranks on Top 3 for selling PEV in China.

Countries



- JAC is operating in more than 120 countries.

Sales outlets



- JAC has more than 2,000 sales outlets in China.
- JAC has more than 100 dealers worldwide.

JAC's New Energy Vehicle strategy

Strategic Goal of JAC



- JAC's goal is that 30 % of their total sales become New Energy Vehicles.
- The Pure Electric Vehicles (PEV) will be equipped with lithium batteries.

New Energy Vehicle Strategy



- JAC focuses on PEV by building a new factory for manufacturing 10,000 PEV each year by the end of 2016.
- JAC is planning to collect \$0.75 billion by distributing shares.



Timeline of JAC's New Energy Vehicle Strategy

1964

2001

2002

2010

2014

2015

2016



JAC was founded



JAC entered the Shanghai Stock Exchange



“Pure Electric Vehicle Development Plan”



Largest scale of electric vehicle model operator within the industry,



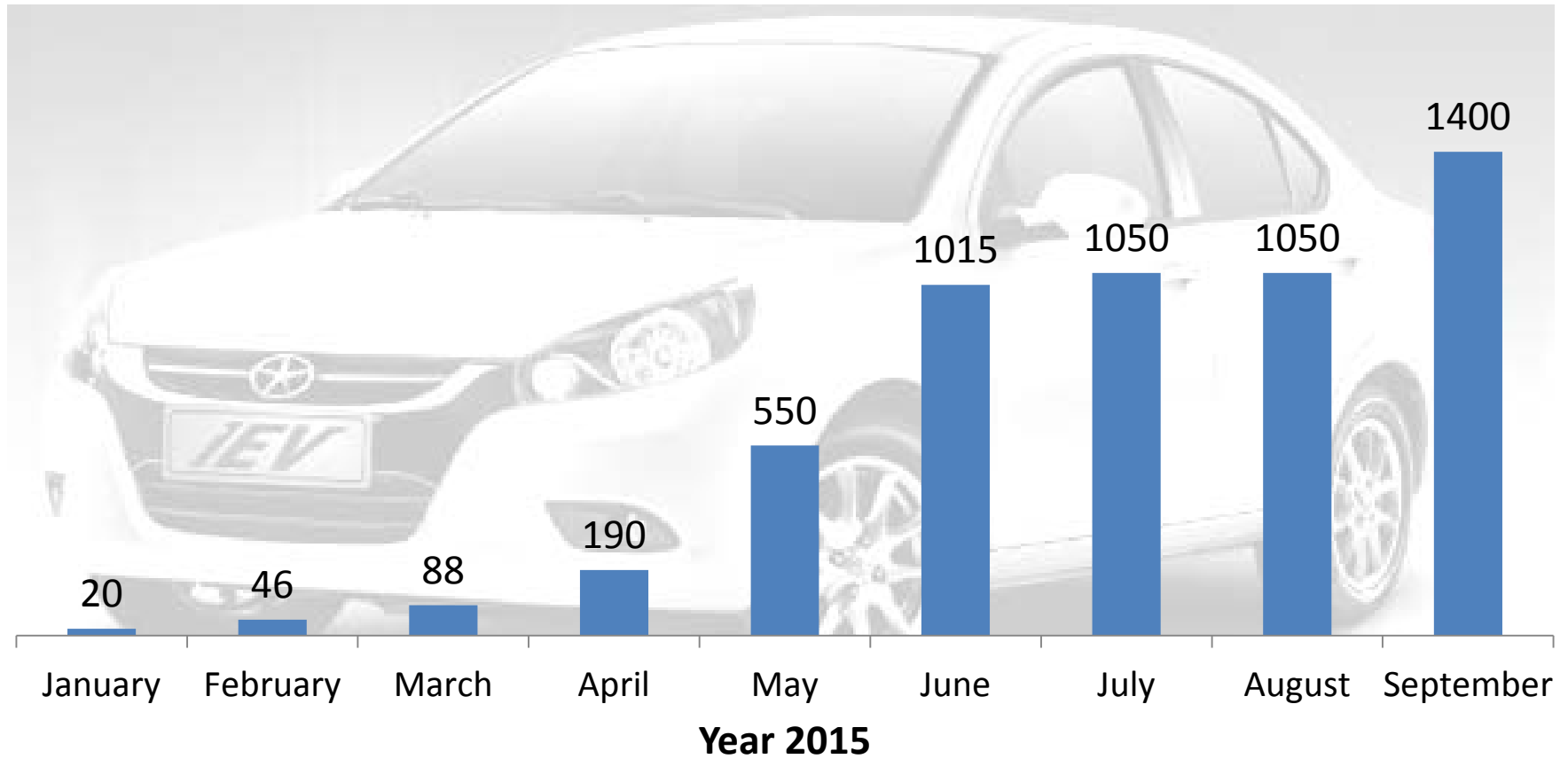
Construction of a new plant for NEV



Estimated net income growth: 63.44 %

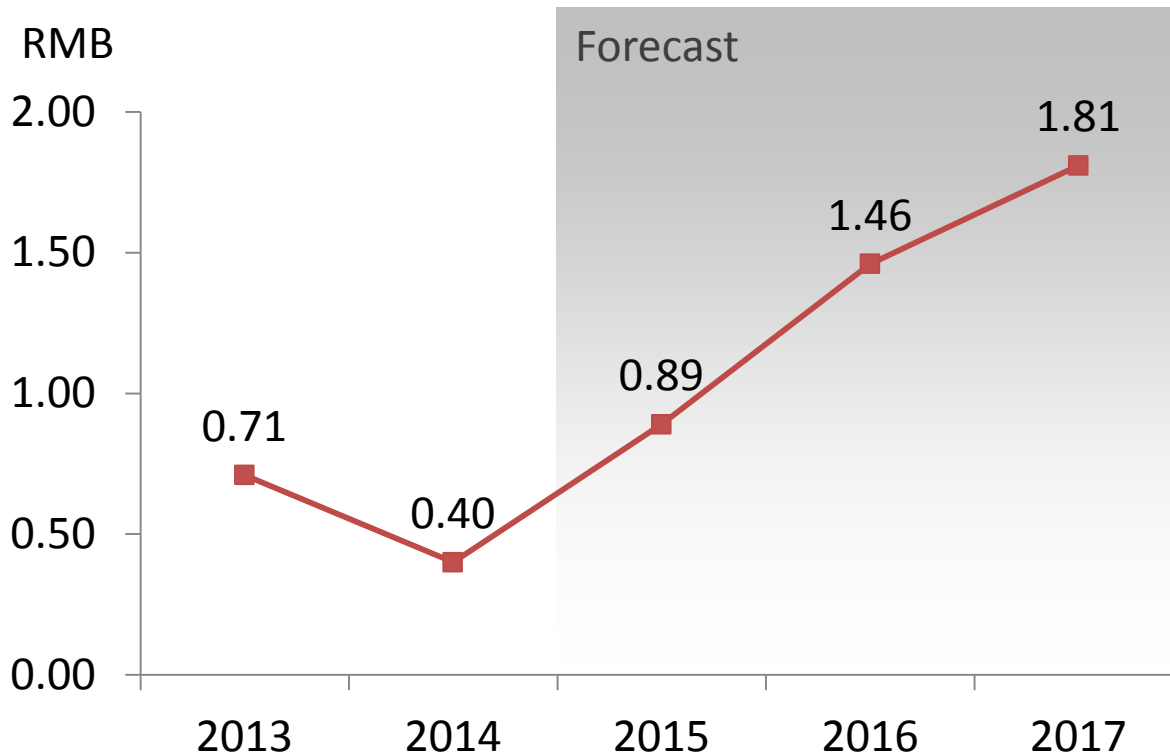


Pure Electric Vehicles sales of JAC in 2015





Earnings per share of JAC

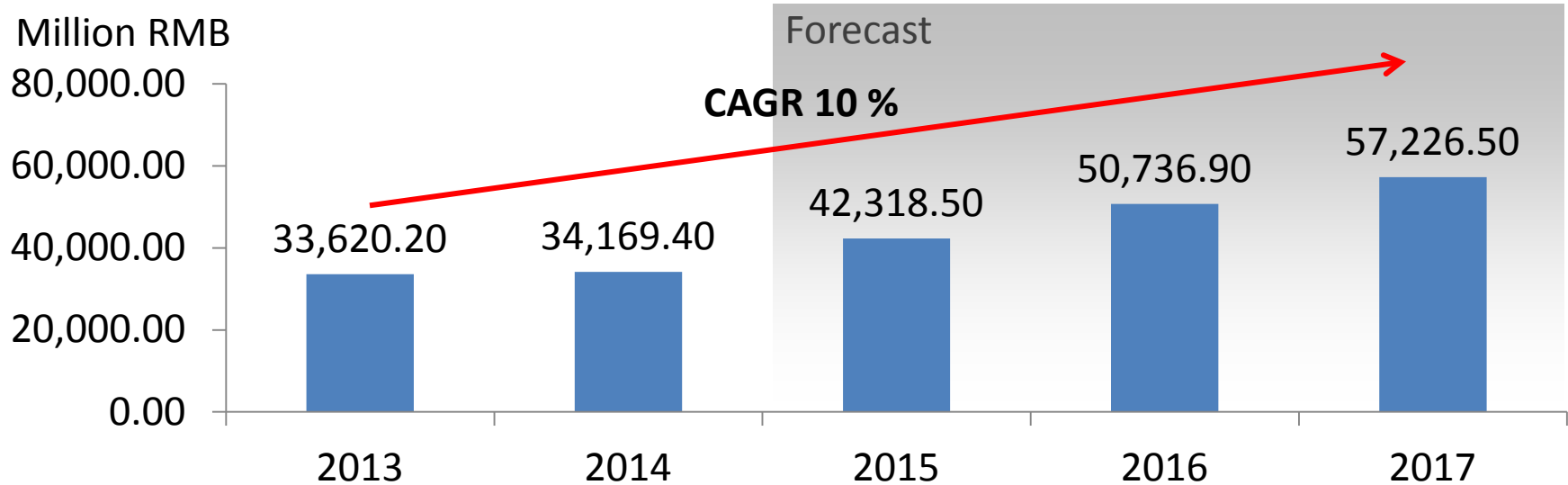


Target price

- The target price is **29.2 RMB** with a dynamic **Price-earnings ratio of 20** compared to the year **2016**.
- Current price on the stock is **14.63 RMB**.

A promising future

Revenue prediction for JAC



Government
policy



Know-how



Financial situation



Market potential





Thank you



JAC
MOTORS



**INNOVATION FOR
BETTER LIFE**



2015 Global Network for Advanced Management Investment Competition

Renmin University of China, School of Business
Top Investment Idea: JAC Motors (China Anhui Jianghuai
Automobile Co., Ltd)

Students: Grace Feng | 冯媛
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Date: 31-10-2015



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Executive Summary

As the Chinese industry continues to grow, pollution is becoming increasingly worse, which is a problem that must be controlled, and the emissions reduced. This is a serious undertaking for China, so the Chinese government is gradually attaching more and more importance to the development of new-energy vehicles. In order to do this, China announced in 2014 it would start implementing this kind of technology. To accomplish this, the Chinese government has started to put the foundation for an energetic and ambitious strategy to develop the new-energy automotive industry. The goal of the Chinese government is to develop the new-energy automotive industry so that this will overtake the traditional automotive industry and that China will act as a leading country in this role.

Starting in 2014, a series of policies were launched from national and local government to encourage the development of charging piles. The goal is to have 5 million new-energy vehicles on the road. Currently there are approximately 25,000 new-energy vehicles. The new-energy automotive industry has huge potentials and the market for this is enormous. The new energy automotive industry development program has been named “Made in China 2025”, and recognized as the most important strategy of the Chinese government. We believe that the new energy automotive industry will be the most important industry in China in 20 years.

JAC Motors is a state owned enterprise with more than 50 years of rich history. Its core business is fully focused on the development of new-energy vehicles and has more than 10 years of experience in this field. JAC Motors has two new-energy vehicles with good performance indicators *i.e.*, the IEV4 and the IEV5. JAC Motors leads the new-energy automotive industry in China, and their competitors are far behind them. Beijing is the largest market for pure electric vehicles, with a high demand causing a shortage in supply. We firmly believe that JAC Motors will highly profit from the changes that will be introduced in the next government reforms. While traditional cars form the majority of the market, there is a huge room for growth for new-energy vehicles. In the near future, JAC Motors will transform into the Toyota of China.



1. Introduction

In the past decades, the whole world witnessed the significant development and growth of China to turn in to the major country it is today. China achieved the same economic development in a short amount of time in comparison to the majority of the Western countries. Due to this rapid growth, it faces issues no country faced before and in huge proportion. China's development turned into prosperity and lifted millions of people out of poverty and created an ever larger middle class in China. Caused by the economic prosperity, however, pollution quickly became a major problem impacting many people's lives. China is becoming more and more aware of this severe issue, and nowadays, after having a good job and stable life, the Chinese people have been expressing that the quality of life is becoming a number one priority for them. The Chinese Government is forming strategies on how to tackle these issues and is doing so by creating incentives in the new-energy automobiles industry and barriers to the traditional gasoline vehicle industry.

We firmly believe that the upcoming decades will be the era where Chinese consumers will shift from traditional automobiles to new-energy automobiles. Major reasons for this are the severe pollution and increasing environmental awareness of Chinese consumers, as well as the rising spending income of the Chinese consumers and the Chinese governmental policies to stimulate this shift. The Chinese new-energy automobiles industry is currently underdeveloped when compared to the Western markets. The Chinese government already made strategic plans to invest heavily in the new-energy mobile structure and incentives to stimulate the purchase of new-energy automobiles. We are thus convinced that there will be room of development in this industry and we choose "China Anhui Jianghuai Automobile Co., Ltd." as our top investment idea.

China Anhui Jianghuai Automobile Co., Ltd (hereinafter referred to as JAC Motors) is a Chinese automobile and commercial vehicle manufacturer. Established in 1964 and based in Hefei, Anhui Province, China. China Anhui Jianghuai Automobile Co., Ltd made an IPO on the Shanghai Stock Exchange in 2001. JAC Motors has a R&D center in Japan and one in Italy to increase the quality of its products. It has a diverse assortment of vehicles; it produces from commercial trucks to small city cars. Its new-energy automobiles, the model J3 EV, was the second best selling pure electric car in China in 2012 and the same model was the the highest selling pure electric vehicle in China in 2013.

All the data that is collected for the usage of this report, is collected through "desk-research." By "desk-research," we mean the collection of data provided by other parties. Data we consulted come from the Chinese government, the website & annual reports provided by JAC motors, embassies, consultant companies and investment agencies.

This report shall begin with the detailed background information and analysis about JAC Motors, followed by the impacts of the government policies, challenges for the new energy vehicles industry, and lastly followed by the conclusion.



2.China Anhui Jianghuai Automobile Co JAC Motors Company background

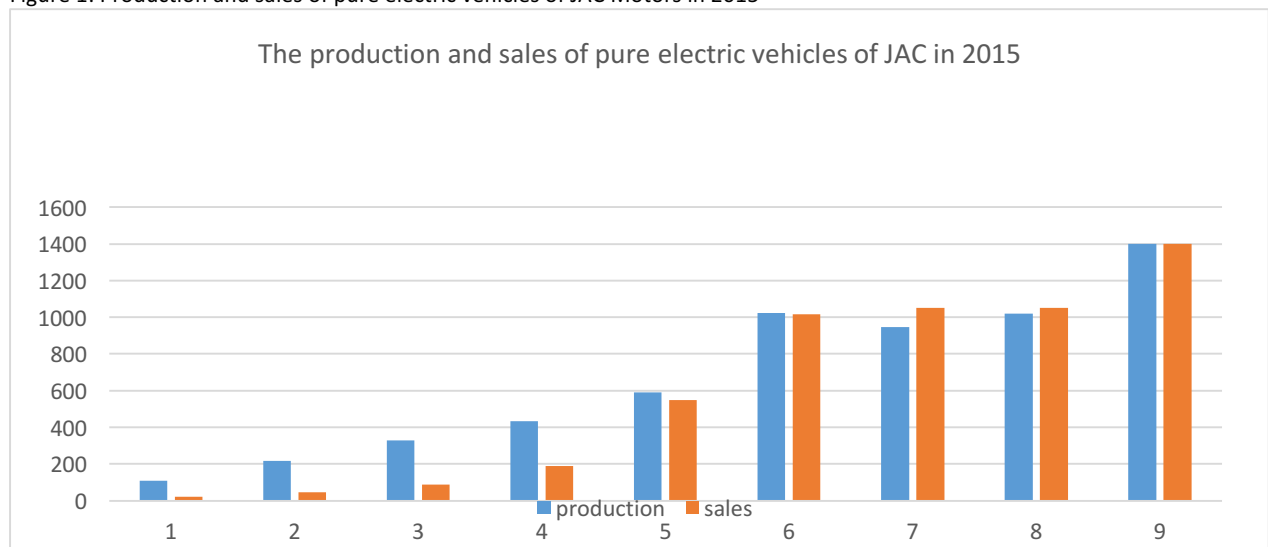
JAC Motors was founded in 1964, and listed on the Shanghai Stock Exchange in 2001 with the stock code of 600418. JAC Motors is active in the domestic market with a market share of more than 20% and is also active in the international market. JAC Motors currently exports to South-America, Europe, Africa, Asia and other regions in the world. It has distributors, stores, and partnerships in more than 120 countries and has 14 overseas plants. JAC motors is experienced in producing all kinds of vehicles *e.g.*: light, medium and heavy-duty trucks, sedans, buses, and passenger vehicles. In China, it has over 2000 stores and it has more than 100 dealers worldwide.

From January to August, 2015, JAC Motors sales accounted for 47,9 million USD dollar for all their products, which was an increase of 15.89% in comparison with the previous year. Sales of passenger cars mounted up to 209,000, an increase of 93.3%.

2.1 Pure Electric Vehicles

The sales of pure electric cars are beyond expectations due to the increasing supply of lion battery JAC has two types of pure electric vehicles on the market named IEV4 and IEV5 which were launched on the market on February 28th, 2014 and April 9th, 2015 respectively. The new launched IEV5 is so popular in the market that the demand exceeds the supply, especially in large cities, such as Beijing, Shanghai and Shenzhen. The business of new energy vehicles of JAC Motors developed extremely fast in 2015. As the country announced several policies which were aimed to develop the new energy vehicles, the production and sales of pure electric vehicles have increased rapidly due to the increase supply of batteries. The production and sales increased over ten times in September compared to January. It is estimated that sales in 2016 will be over than 20,000 and still have the chance to exceed the expectation. Originally the sales of new energy vehicles accounted for 10% of total car sales, however, in June and August these were respectively 30% and 40%.

Figure 1: Production and sales of pure electric vehicles of JAC Motors in 2015



Source: China Association of Automobile Manufacturers



2.2 Joint venture to accelerate the development of new energy vehicles

JAC Motors signed an agreement with Mengsheng, which is an automotive manufacturing company located in Wuhan, on September 1st. They agreed to build up a joint venture company with the registered capital of 50 million Yuan in which JAC Motors accounted for 70 %. The project is scheduled to start at the end of 2015 with the construction period of 12 months. It is aimed to have a capacity of producing 10,000 new energy cars at the end of 2016.

2.3 Development of pure electric light trucks

JAC Motors is planning to expand its product assortment in the field of passenger cars and commercial vehicles. It recently introduced the SUV S3 which was extremely popular in the market and had the biggest market share in its product range. JAC Motors will launch pure electric SUV's based on the existing platform in 2016.

JAC motors is also the market leader in China for the light trucks segment and has been such for 14 consecutive years. It targets to launch its pure electric truck in the first half of 2016. Forecasts show that the pure electric SUV and pure light truck will dominate the market in their product ranges. With the introduction and launch of pure electric SUVs and commercial trucks on the market, JAC Motors would become the company with the most diverse new-energy vehicle assortment in China.



2.4 New energy vehicles strategy “i.EV+ strategy”

JAC Motors introduced a new energy vehicles business development strategy on July 18, 2015. This business development strategy is the foundation for the development of the new energy vehicle business in the future. The strategic goal is:

To have a total output of new energy vehicles that consists for more than 30% of the company’s total sales in 2023.

In order to reach this target, JAC Motors issued the plan of designated placement on the stock market. It wants to collect RMB 4.5 billion by distributing 329.07 million shares with a price not less than 13.88 RMB. The capital collected will be used in the following three aspects:

1. Production of car and core components for new energy vehicles with a capacity of 100,000 units per year, 150,000 units per year of automotive batteries and 150,000 units per year of motors and controllers.
2. Production line of advance pure electric trucks with a capacity of 100,000 units per year.
3. High-end commercial vehicle transmission projects with the capacity of 475,000 units/year.

Figure 2: New investments and goals

Details of designated placement projects			Unit: RMB million, year		
Project	Total investment	Capital planned to utilize	Estimated revenue per year	Estimated profit per year	Period of payback
New energy car and core components production	23.73	2,000 million	23,700	810	7.18
Production line of advance pure electric trucks	22.95	2,000 million	109,00	627	6.90
High-end commercial vehicle transmission project	5.65	500 million	1,700	153	6.17

Source: JAC Motors Annual Report



2.5 Evaluation

Forecasts show that the company’s revenue in 2015, 2016 and 2017 respectively will be 42.3 billion, 50.7 billion and 57.2 billion RMB, with a growth rate of 24%, 20% and 13% respectively. Net profit will be 1.31 billion, 2.14 billion and 2.64 billion RMB respectively, and the corresponding EPS (Earnings per share) is 0.89, 1.46 and 1.81 RMB respectively. The target price for 2016 is 29.2 RMB with the dynamic Price-earnings ratio of 20. Current price of JAC Motors on the stock market is 14.63RMB with the market value of 22.4 billion RMB.

Figure 3: Financial information JAS Motors

Performance Forecasts					
Index	2013	2014	2015(E)	2016(E)	2017(E)
Revenue(million)	33,620.2	34,169.4	42,318.5	50,736.9	57,226.5
Growth rate of revenue	15.47 %	1.63 %	23.85 %	19.89 %	12.79 %
Net income growth	85.04 %	-42.96 %	152.45 %	63.44 %	23.75 %
Earnings per share	0.71	0.40	0.89	1.46	1.81

Source: JAC Motors Announcement

3. Government policy impacts

The Chinese State Council published in 2012 a plan to develop the new-energy vehicles market. It targets to have a production of 500,000 vehicles. The “energy saving and energy automobile planning” strategy aims to ease China’s dependence of imported oil and, more importantly, aims to cut emissions by restructuring the automobile sector in a more sustainable model. The main reason for this is that China is becoming a great power house and is also the single largest country in CO² emissions. Switching to new energy vehicles makes it the largest market for growth potential. Hereunder you will find the main points of the plan and its implications.

3.1 Discouragement from usage of conventional vehicles

China currently limits the purchase of conventional vehicles and does so by the implementation of the “vehicle registration lottery,” where people need to draw a lot and win the lottery in order to get a license plate. It also does this by enhancing traffic controls. One example is the “odd-even” number plates where on certain days only even license plates are allowed to drive and, on the others, the odd license plates. This is all done in order to reduce the traffic jams and, most importantly, to reduce the CO² emissions.

3.2 New energy infrastructure

It is necessary not only to develop the technology for new-energy vehicles, but also the surrounding technology that is necessary for it. China currently installed 28,000 charging piles and 723 charging stations. This forms a ratio of charging facilities and new energy vehicles of 4:1. As a part of the “Electric Vehicle Charging Infrastructure Planning” program, this aims to develop the charging facilities to reach a ratio of 1:1 in 2020. The completion of this will greatly improve the user experience of new energy vehicles owners and will improve the demand for new energy vehicles. Besides this, every new residential housing unit will be equipped with an electric vehicle charger or at least a space for a charger. Making and facilitating the process much easier for owners to charge their new energy car, wherever possible.

3.3 Greenhouse Gas Emission Trading Scheme

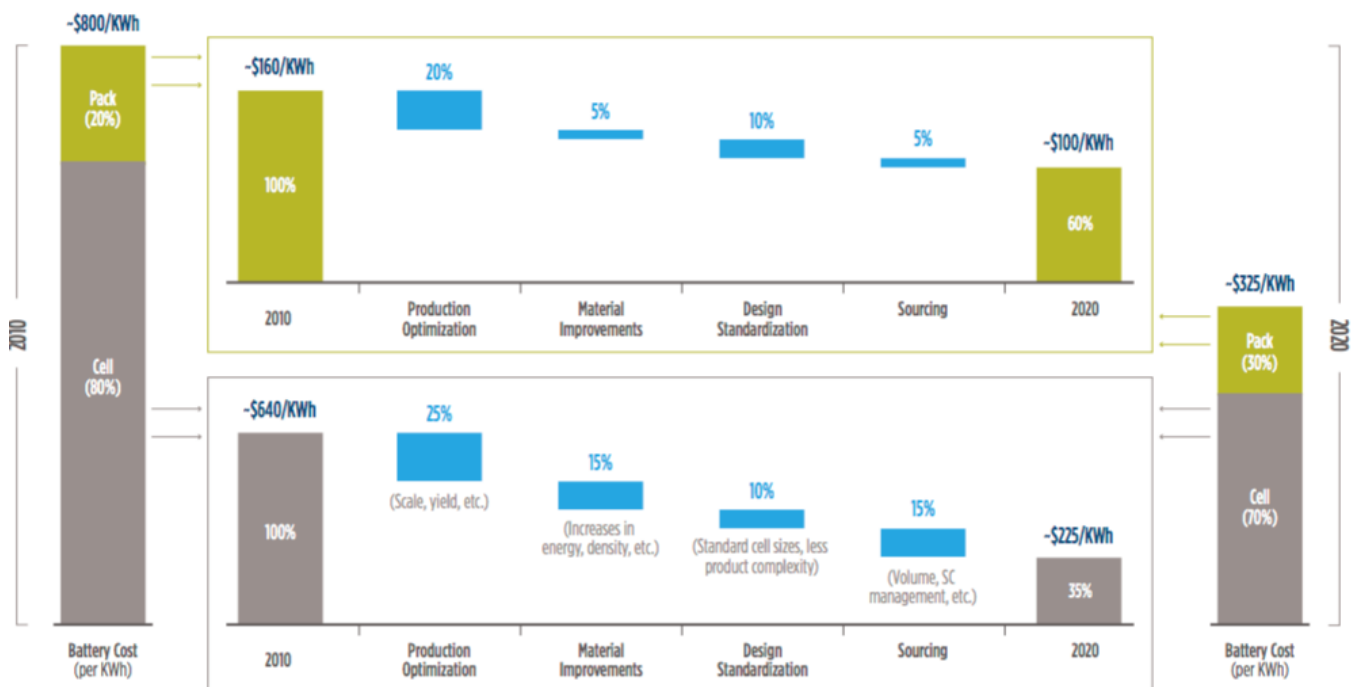
China will release the Greenhouse Gas Emission Trading Scheme in 2017. By that time, every company will be held responsible for their corporate social responsibility way of conduct. Each company will have a quota for air pollution. As a result, companies will switch to new-energy vehicle in the future.

4.Challenges

4.1 High cost of batteries

The new energy vehicles battery's high price may not attract consumers to switch from conventional cars due to the same price for both vehicles. However, forecasts show that the battery prices will be significantly reduced. This cost reduction comes from a combination of improvements in the production process, materials, design, standardization and supply chain actions.

Figure 4: Costs of lithium batteries



Source: Report The China New Energy Vehicles Program

4.2 Battery of new energy vehicles

Charging requires hours, compared to the few minutes required for conventional vehicles. China has become the leader in Li-ion battery manufacturing for consumer products. More than half of all the batteries used in consumer products are manufactured in China. The Chinese battery manufacturers aim to improve them by implementing technology advancements. It is expected that charging times will be improved by 2020 and the State Council is addressing this issue by installing a sufficient amount of chargers so that the proportion in 2020 would be 1:1. Thus, the private sector as the government sector are both working to solve this issue.



5. Conclusion

China is one of the biggest producers of CO² so it introduced several ambitious policies in order to develop the new energy vehicles industry and make its economy more sustainable. It developed rules to discourage consumers to purchase and use conventional vehicles and is transforming its automobile industry to one where new energy vehicles will be the standard.

Huge efforts are already implemented to discourage consumers from buying conventional cars and, even if they manage to obtain a vehicle license, they face many barriers to use cars. Through the “vehicle registration lottery,” consumers draw a ticket and people get a license plate based on random selection. Besides, owners of a conventional car need to bear in mind that on certain days only even or odd number plates are allowed to drive. On the other hand, the Chinese State Council is now building the framework for the future that new energy vehicles become the standard in China. It is installing a huge number of charging piles and charging stations in order to improve the driving experience for the owners of new energy vehicles and to have a ratio of 1:1 charging facility for every new energy vehicle. Implementing schemes where companies are accountable for their own corporate social responsibility, the government stimulates companies to purchase and switch to new energy vehicles.

Challenges for the new energy vehicles industry are high prices. High prices of the batteries make the price of new energy vehicles almost as much as the luxury vehicles. China is currently aiming to solve this problem by investing in the battery technology. Forecasts show that the price of batteries will reduce significantly in the future, making it more attractive for consumers to switch to new energy vehicles. Thus investments in technologies will solve these two issues in the near future, making the driving experience for owners of new energy vehicles better.

JAC Motors is, by far, the Chinese company with the best prospects due to its rich experience, many collaborations and diverse product assortment. It produces all kinds of vehicles, ranging from trucks to buses and passenger vehicles. It introduced several pure electric vehicles on the market and both are very popular. Besides full electric passenger cars, it is also planning to expand its pure electric product assortment, intending to launch pure electric SUV's & trucks in 2016. JAC Motors is currently the market leader in China for light trucks and its market share in the new energy vehicles market will be strengthened thanks to the pure electric trucks & SUV's. JAC Motors will then have a fine market share in all types of new energy vehicles.

JAC Motors also collaborated with Mengsheng in order to expand its production capacity so that it can produce a total of 10,000 new energy cars at the end of 2016. Internally, it also developed a strategy where new energy vehicles form a crucial part of it. It aims to expand its production so that in 2023 total output of new energy vehicles will consist for more than 30% of the company's total sales.

JAC Motors laid out a detailed strategy and is already working hard to develop its new energy vehicles assortment. With two full electric vehicles on the road that are both the best selling full electric vehicles in China, we find that JAC Motors is currently undervalued and has much to offer in the near and far future. Our calculations show that the target price for the stock of JAC Motors in 2016 should be 29.20 RMB, it is currently valued in the stock market with a price of 14.63RMB. The current stock price is currently far under the calculated price of 29.20 RMB and the government policies and the internal strategy of JAC Motors show that there is room for huge growth for the company.



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Advanced Management



2015 Global Network for Advanced Management Investment Competition

INVESTMENT IDEAS

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Investment Ideas

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1. East Money Information Co., Ltd. (300059)

1. Company Performance

The company achieved revenues of 1.57 billion yuan by 2015H1, which is an increase of 684.39%. Their net profit of 1.042 billion yuan represents a substantial increase of 3070.31%. Easy Money Information's profit is mostly due to their clients in the internet finance equipment sector.

2. Recent Developments & Prospects

The company actively expands their platform for Internet financial services. Easy Money Information developed their internet brokerage by the acquisition of BAUER securities and China securities credit investment co. ltd. Besides another 200 million yuan were set up to fund management companies. You can expect the company to gradually upgrade to a major internet financial service platform.

3. Core Business

Easy Money Information offers several solutions in the internet financial service field. The company's goal is to expand their financial services in internet security, P2B and fund management.

4. Investment suggestion

We expect that the company's 15-years net profit will reach 1.4 billion RMB. The current market value of PE is only 38X. These indicators are the main foundation for us to buy the stock.



2. Huatai Securities (601688)

1. Company performance

The company's revenue and profit have increased significantly. In the first six months of 2015, the company achieved an operating income of 14.64 billion yuan, an increase of 235.2% than last year. The net profit amounts to 6.67 billion yuan, an increase of 339.8%. The growths-rates are due to brokerage business and margin financing business, while self-management and asset management business has increased significantly.

2. Recent Development & Prospects

Brokerage and wealth management business is developing rapidly. In the first half, the company realized brokerage and wealth management business operating income 10.33 billion yuan, an increase of 281.4% than last year. The company's stock and fund trading volume reached 24.37 trillion Yuan, the market share of 8.32 percent, Ranked industry first, representing an increase of 20.41 percent over the same period last year.

3. Financial Information

The company margin financing business balance reached 1,145.11 billion yuan in June 2015. They have a market share of 5.59 percent. The margin financing business balances grew 440.2% from a year earlier, far exceeding the industry level average.

4. Daily users

The company will continue to promote internet banking services development, and constantly optimize the function of mobile Internet platform. Mobile Terminal downloads amounts to 5,367,000, total downloads amounted to 7,657,000. The customer's activity each day reached 94.2 million.

5. Trends

Internet finance and innovation business continues to boost the company's future development. Huatai Securities capital strengths have greatly improved. The company currently has 245 securities business departments, covering 30 provinces, more than 8 million customers.

6. Investment suggestion

We expect the company 2015/2016 annual EPS of 1.36 / 1.54 yuan, corresponding to 10x / 9x PE, 1.2x / 1.1x PB. These are the main indicators for us to buy the stock of Huatai Securities.



3. Qingdao TGOOD Electric Co., Ltd. (300001)

1. Company Performance

In the first six months of 2015 their operating income amounts to 999 million yuan, an increase of 34.1%. Their net profit is 85.135 million yuan, an increase of 20.2%. The company is listed in Shenzhen Stock Exchange.

2. Recent Development & Prospects

The company established joint ventures in 14 cities. Qingdao TGOOD Electric plans to complete the occupation of 50 percent of the electric vehicle charging market by the end of 2017. They are relying on big data to make their charging network more efficient. We expect the charging network will exceed 50 billion yuan of profit. Qingdao TGOOD Electric hopes that intelligent substation PV EPC becomes the new growth point of business.

3. Expansion

The company has set up a "TGOOD holding" in Hong Kong as a platform for import and export.

4. Investment suggestion

We forecast 2015-2017 EPS were 0.38 yuan, 0.62 yuan, 1.01 yuan, corresponding to 53x / 32x / 20x PE, 8.3x / 6.9x / 5.4x PB. These are the main indicators for us to buy the stock of Qingdao TGOOD Electric Co., Ltd.



4. Jiangxi Ganfeng Lithium Co.,Ltd. (002460)

1. Company performance

In the first half of 2015, the company's revenue grew 33.78 percent from a year earlier, mainly due to equity investment projects and the increase of production capacity. Jiangxi Ganfeng Lithium operating costs increased 36.66 percent from a year earlier, mainly due to revenue growth. Their gross profit amounts to 108 million yuan, an increase 23.29 percent from a year earlier.

2. Core Business

The main products are lithium chloride, lithium fluoride, lithium carbonate, lithium hydroxide, lithium magnesium alloy. These materials are crucial for Pure Electric Vehicle's batteries.

3. Recent Developments

The company continues to improve their multi-channel raw material supply system. They just signed a long-term contract with RIM (an Australian company) to ensure the supply of Lithium.

4. Research & Development

Jiangxi Ganfeng Lithium is constantly improving their product structure, technological level. Their focus is on ultra-thin lithium projects.

5. Investment suggestion

We give head price of 42.42 Yuan, these are the main indicators for us to buy the stock of Jiangxi Ganfeng Lithium Co., Ltd.