

GAC Group (2238 HK)

FY24E NP to rise YoY on JVs and Aion

We revise GAC Group (GAC)'s FY24E net profit by 4% to RMB6.3bn, largely due to resilient equity income from joint ventures (JVs) and associates. We expect Aion to be at a breakeven level in FY24E, and we are of the view that Aion needs quality growth in 2024. We believe GAC's current valuation is attractive.

- **We project 4Q23E net profit to be RMB218mn.** GAC's 4Q earnings every year are the most volatile compared with other quarters, making it difficult for us to forecast. Despite rising competition, GAC's total quarterly sales volume reached an all-time high in 4Q23. We expect the net loss for homegrown brands (Aion, Trumpchi and the research institute) to widen QoQ due to year-end impairment and one-off items in 4Q23. We project 4Q23 equity income to decline 62% QoQ to RMB681mn, largely due to GAC Mitsubishi's restructuring costs.
- **More Hyper models to aid Aion's margin and valuation.** We are of the view that Aion needs quality growth in 2024, as its 77% YoY growth in sales volume in FY23 did not help the share price. We believe investors' previous worries about Aion's large exposure in ride-hailing fleets and high inventory have been partially priced in, after the sluggish sales in 4Q23 and Jan 2024. We are of the view that Aion should spend more resources on Hyper in FY24E to build brand image and lift margins. We project Aion's sales volume to rise 4% YoY to 0.5mn units, with Hyper series accounting for 15% in FY24E (vs. 2% in FY23), aided by new models.
- **GAC Toyota and GAC Honda could be more resilient than expected.** Sales volumes at GAC Honda and GAC Toyota in FY23 were 7% and 3% higher than our prior forecasts, respectively. Their profitable models, such as the *Accord*, *Integra*, *Breeze*, *Wildlander* and *Highlander*, were more resilient than we had expected. In fact, retail sales volume for the new-generation *Accord* has been resilient after the initial ramp-up. The new *Camry* is scheduled to be rolled out in 1Q24. We revise up GAC's equity income by 3% in FY24E.
- **Valuation/Key risks.** We use sum-of-the-parts (SOTP) valuation to factor in Aion's planned spin-off. We value Aion HK\$3.5 per share, based on 0.7x (unchanged) our FY24E P/S. We value HK\$2.5 per share for JVs and associates based on 3.0x our FY24E P/E (see details in Figure 3). Accordingly, we maintain BUY rating and lower target price slightly from HK\$6.50 to HK\$6.00. Key risks to our rating and target price include lower sales volume and margins especially for Aion and a sector de-rating.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	75,676	110,006	143,989	145,318	152,655
YoY growth (%)	19.8	45.4	30.9	0.9	5.0
Net profit (RMB mn)	7,511.0	7,982.9	4,728.6	6,329.4	6,009.1
YoY growth (%)	25.9	6.3	(40.8)	33.9	(5.1)
EPS (Reported) (RMB)	0.73	0.77	0.45	0.60	0.57
P/E (x)	8.3	7.5	6.5	4.8	5.1
P/B (x)	0.7	0.5	0.3	0.3	0.2
Yield (%)	3.7	4.2	4.8	6.4	6.1
ROE (%)	8.6	7.8	4.1	5.3	4.9
Net gearing (%)	(10.7)	(25.2)	(18.0)	(19.3)	(18.3)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$6.00
(Previous TP)	HK\$6.50
Up/Downside	89.9%
Current Price	HK\$3.16

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Stock Data

Mkt Cap (HK\$ mn)	33,149.2
Avg 3 mths t/o (HK\$ mn)	40.2
52w High/Low (HK\$)	5.44/3.05
Total Issued Shares (mn)	10490.2

Source: FactSet

Shareholding Structure

Guangzhou Automobile	52.5%
Industry	
Others	47.5%

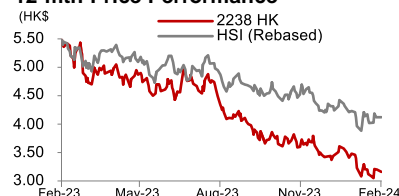
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-8.9%	-7.0%
3-mth	-12.5%	-4.1%
6-mth	-27.2%	-13.9%

Source: FactSet

12-mth Price Performance



Source: FactSet

Related Reports

["GAC Group \(2238 HK\) – Aion's turning profitable as a positive catalyst" – 27 Oct 2023](#)

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	143,989	145,318	152,655	140,545	141,158	148,344	2.5%	2.9%	2.9%
Gross profit	7,695	9,309	11,679	7,503	9,270	11,988	2.6%	0.4%	-2.6%
Operating profit	(3,905)	(2,403)	(481)	(3,899)	(2,288)	(482)	N/A	N/A	N/A
Net profit	4,729	6,329	6,009	4,670	6,117	6,031	1.3%	3.5%	-0.4%
Gross margin	5.3%	6.4%	7.7%	5.3%	6.6%	8.1%	0.0 ppt	-0.2 ppt	-0.4 ppt
Operating margin	-2.7%	-1.7%	-0.3%	-2.8%	-1.6%	-0.3%	0.1 ppt	0.0 ppt	0.0 ppt
Net margin	3.3%	4.4%	3.9%	3.3%	4.3%	4.1%	0.0 ppt	0.0 ppt	-0.1 ppt

Source: CMBIGM estimates

Figure 2: CMBI estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	143,989	145,318	152,655	136,277	154,540	176,667	5.7%	-6.0%	-13.6%
Gross profit	7,695	9,309	11,679	7,423	10,614	13,844	3.7%	-12.3%	-15.6%
Operating profit	(3,905)	(2,403)	(481)	(4,753)	(3,093)	(1,405)	N/A	N/A	N/A
Net profit	4,729	6,329	6,009	5,583	6,770	7,329	-15.3%	-6.5%	-18.0%
Gross margin	5.3%	6.4%	7.7%	5.4%	6.9%	7.8%	-0.1 ppt	-0.5 ppt	-0.2 ppt
Operating margin	-2.7%	-1.7%	-0.3%	-3.5%	-2.0%	-0.8%	0.8 ppt	0.3 ppt	0.5 ppt
Net margin	3.3%	4.4%	3.9%	4.1%	4.4%	4.1%	-0.8 ppt	0.0 ppt	-0.2 ppt

Source: Bloomberg, CMBIGM estimates

Figure 3: SOTP valuation

GAC (2238 HK)	FY24E (RMB bn)	Target P/E Multiple	Target P/S Multiple	Est. Shareholding	Target Market Cap (HK\$ bn)	Target Price (HK\$)
Estimated revenue of Aion	63	-	0.7x	77%	37	3.50
Estimated share of profits of joint ventures & associates	8	3.0x	-	-	27	2.50
SOTP					74	6.00

Source: CMBIGM estimates

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	63,157	75,676	110,006	143,989	145,318	152,655
Cost of goods sold	(60,861)	(71,777)	(105,550)	(136,294)	(136,009)	(140,976)
Gross profit	2,296	3,899	4,457	7,695	9,309	11,679
Operating expenses	(6,167)	(7,782)	(11,285)	(11,749)	(11,845)	(12,293)
Selling expense	(3,641)	(4,340)	(4,228)	(5,384)	(5,319)	(5,458)
Admin expense	(3,850)	(4,556)	(5,487)	(6,765)	(6,926)	(7,435)
Others	1,325	1,114	(1,570)	400	400	600
Operating profit	(3,871)	(3,883)	(6,829)	(4,054)	(2,536)	(614)
Share of (losses)/profits of associates/JV	9,571	11,404	14,065	7,753	8,336	6,520
EBITDA	11,242	13,555	14,418	12,002	14,958	15,996
Depreciation	2,744	2,878	3,145	3,323	3,512	3,708
Other amortisation	2,367	2,840	3,545	4,224	4,988	5,758
EBIT	6,132	7,837	7,728	4,455	6,458	6,529
Interest income	432	316	491	756	657	623
Interest expense	(440)	(425)	(351)	(395)	(331)	(255)
Pre-tax profit	5,692	7,412	7,377	4,060	6,127	6,274
Income tax	356	154	536	295	199	22
After tax profit	6,048	7,566	7,912	4,355	6,326	6,296
Minority interest	(84)	(55)	71	374	3	(287)
Net profit	5,964	7,511	7,983	4,729	6,329	6,009
Gross dividends	1,860	2,297	2,516	1,466	1,962	1,863

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	56,643	61,192	91,792	99,576	102,961	105,824
Cash & equivalents	15,791	17,235	34,222	25,662	28,659	28,666
Restricted cash	2,084	1,624	1,977	1,977	1,977	1,977
Account receivables	19,616	25,110	31,597	45,366	45,785	48,097
Inventories	6,622	8,111	12,362	14,936	14,905	15,449
ST bank deposits	10,624	5,177	3,326	3,326	3,326	3,326
Financial assets at FVTPL	1,595	3,226	4,220	4,220	4,220	4,220
Other current assets	311	709	4,090	4,090	4,090	4,090
Non-current assets	86,218	93,059	98,283	99,866	101,046	101,741
PP&E	20,073	19,476	20,761	19,645	18,502	17,262
Right-of-use assets	6,909	6,818	7,014	7,013	6,959	6,852
Deferred income tax	2,124	2,834	3,715	3,715	3,715	3,715
Investment in JVs & assos	33,404	36,927	37,811	38,646	40,184	42,073
Intangibles	12,259	13,581	14,471	16,379	17,257	17,451
Financial assets at FVTPL	4,375	1,946	2,169	2,169	2,169	2,169
Other non-current assets	7,075	11,478	12,341	12,300	12,259	12,218
Total assets	142,861	154,251	190,075	199,443	204,006	207,565
Current liabilities	42,543	49,133	56,688	64,235	63,347	62,097
Short-term borrowings	6,504	9,889	13,813	7,404	4,746	1,362
Account payables	35,464	38,490	42,069	56,011	57,757	59,866
Tax payable	103	202	185	185	185	185
Other current liabilities	262	358	345	345	345	345
Lease liabilities	209	194	277	290	314	338
Non-current liabilities	13,604	12,469	11,084	10,075	10,582	11,111
Long-term borrowings	8,473	7,527	5,697	4,697	5,197	5,697
Other non-current liabilities	5,131	4,943	5,387	5,378	5,385	5,414
Total liabilities	56,147	61,602	67,772	74,311	73,929	73,208
Share capital	10,350	10,371	10,487	10,518	10,528	10,528
Retained earnings	45,097	50,597	56,051	58,524	63,264	67,336
Other reserves	28,928	29,345	46,750	47,520	47,798	47,798
Total shareholders equity	84,375	90,313	113,289	116,562	121,590	125,662
Minority interest	2,339	2,335	9,014	8,570	8,487	8,694
Total equity and liabilities	142,861	154,251	190,075	199,443	204,006	207,565

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	5,692	7,412	7,377	4,060	6,127	6,274
Depreciation & amortization	5,110	5,719	6,690	7,547	8,500	9,467
Tax paid	(288)	(320)	(338)	295	199	22
Change in working capital	(3,973)	(8,134)	(9,458)	(2,733)	1,026	(1,094)
Others	(10,212)	(11,167)	(10,908)	(6,716)	(7,003)	(5,338)
Net cash from operations	(3,671)	(6,491)	(6,638)	2,454	8,850	9,331
Investing						
Capital expenditure	(6,586)	(6,243)	(8,014)	(9,000)	(9,100)	(9,100)
Acquisition of subsidiaries/ investments	(1,620)	(3,689)	(1,344)	(2,150)	(600)	(600)
Net proceeds from disposal of short-term investments	(632)	(221)	(5,491)	0	0	0
Others	5,898	17,388	13,257	9,568	7,747	5,531
Net cash from investing	(2,938)	7,235	(1,592)	(1,582)	(1,953)	(4,169)
Financing						
Dividend paid	(1,862)	(2,071)	(2,407)	(2,255)	(1,590)	(1,937)
Net borrowings	98	936	4,270	(7,409)	(2,158)	(2,884)
Proceeds from share issues	607	82	213	570	189	0
Others	(21)	1,829	23,104	(338)	(341)	(334)
Net cash from financing	(1,178)	777	25,181	(9,432)	(3,900)	(5,155)
Net change in cash						
Cash at the beginning of the year	23,605	15,791	17,235	34,222	25,662	28,659
Exchange difference	(27)	(76)	37	0	0	0
Cash at the end of the year	15,791	17,235	34,222	25,662	28,659	28,666
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	5.8%	19.8%	45.4%	30.9%	0.9%	5.0%
Gross profit	(9.0%)	69.8%	14.3%	72.6%	21.0%	25.5%
EBITDA	1.4%	20.6%	6.4%	(16.8%)	24.6%	6.9%
EBIT	(9.9%)	27.8%	(1.4%)	(42.4%)	45.0%	1.1%
Net profit	(9.9%)	25.9%	6.3%	(40.8%)	33.9%	(5.1%)
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	3.6%	5.2%	4.1%	5.3%	6.4%	7.7%
Operating margin	(6.1%)	(5.1%)	(6.2%)	(2.8%)	(1.7%)	(0.4%)
EBITDA margin	17.8%	17.9%	13.1%	8.3%	10.3%	10.5%
Return on equity (ROE)	7.2%	8.6%	7.8%	4.1%	5.3%	4.9%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Net debt to equity (x)	(0.1)	(0.1)	(0.3)	(0.2)	(0.2)	(0.2)
Current ratio (x)	1.3	1.2	1.6	1.6	1.6	1.7
Receivable turnover days	113.4	121.1	104.8	115.0	115.0	115.0
Inventory turnover days	39.7	41.2	42.7	40.0	40.0	40.0
Payable turnover days	212.7	195.7	145.5	150.0	155.0	155.0
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	11.5	8.3	7.5	6.5	4.8	5.1
P/E (diluted)	11.7	8.5	7.5	6.5	4.8	5.1
P/B	0.8	0.7	0.5	0.3	0.3	0.2
P/CFPS	na	na	na	12.4	3.5	3.3
Div yield (%)	2.7	3.7	4.2	4.8	6.4	6.1

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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