2 Jul 2024

CMB International Global Markets | Equity Research | Company Update

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Geely Automobile (175 HK)

Solid 1Q24 with better 2H24 earnings ahead

Maintain BUY. We are of the view that 1Q24 earnings (net profit of RMB1.56bn) were slightly better than our prior forecast and therefore, we raise our FY24E net profit estimates by 5% to RMB7bn. We believe that Zeekr could be undervalued given its solid sales momentum and possible earnings improvement from 2H24E.

- **1Q24 earnings slightly beat.** Geely reported its quarterly results for the first time in history. Its average selling price (ASP) rose 6% YoY despite price war, higher than our expectation. Gross margin excluding Zeekr fell 2.1ppts YoY to 14.2%, in line with our estimates. Selling expenses were slightly higher and G&A expenses were slightly lower than our projections. That, along with better-than-expected net finance income, resulted in a slight net profit beat.
- **Zeekr's earnings could improve on the new Zeekr *009*.** We maintain our FY24E sales volume forecast of 220,000 units, implying about an average monthly sales volume of 22,000 units in 2H24E (vs. 20,106 units in Jun). We estimate that the Zeekr *009 Grand* version could lift Zeekr's vehicle gross margin by more than 1ppt in 2H24E. Therefore, we project Zeekr's vehicle gross margin in FY24E to be 14.7% (vs. 14% in 1Q24). We estimate Zeekr's 100% net loss to be about RMB770mn under the HKFRS accounting standards in FY24E.
- **ICE profitability remains resilient.** We revise up our FY24E sales volume for Geely by 0.12mn units to 1.98mn units, mainly due to stronger-than-expected internal-combustion engine (ICE) vehicle sales in 1H24, including *Xingyue L*, *Xingrui*, *Boyue* and *Emgrand EC7*. Lynk & Co's sales volume in 1H24 was also better than expected. We are of the view that the greater economies of scale from the ICE business should offset the lower margin for its PHEV business. We revise up our FY24E net profit by 5% to RMB 7.0bn and raise our FY25E net profit by 6% to RMB7.7bn.
- **Valuation/Key risks.** We value Zeekr at 1.0x (previously 1.3x) our revised FY24E core revenue (excluding Viridi's battery pack sales and R&D services), which implies US$8.4bn for Zeekr's valuation. We value Geely's all other businesses excluding Zeekr at 13x (unchanged) FY24E P/E (details in Figure 4). We maintain our BUY rating and target price of HK$14.00. Key risks to our rating and target price include lower sales volume and GPM, especially for NEVs, than we expect and sector de-rating.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	147,965	179,204	227,474	240,150	255,120
YoY growth (%)	45.6	21.1	26.9	5.6	6.2
Net profit (RMB mn)	5,260.4	5,308.4	7,045.6	7,741.6	8,825.6
YoY growth (%)	8.5	0.9	32.7	9.9	14.0
EPS (Reported) (RMB)	0.52	0.53	0.70	0.76	0.86
P/E (x)	15.6	15.5	11.7	10.7	9.5
P/B (x)	1.1	1.0	1.0	0.9	0.8
Yield (%)	2.3	2.5	3.1	3.4	14.3
ROE (%)	7.3	6.8	8.4	8.6	9.2
Net gearing (%)	(33.2)	(38.8)	(49.0)	(51.1)	(51.5)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	**HK$14.00**
Up/Downside	**59.3%**
Current Price	**HK$8.79**

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Stock Data

Mkt Cap (HK$ mn)	88,457.1
Avg 3 mths t/o (HK$ mn)	375.9
52w High/Low (HK$)	11.26/7.34
Total Issued Shares (mn)	10063.4

Source: FactSet

Shareholding Structure

Mr. Li Shufu	41.2%
Others	58.8%

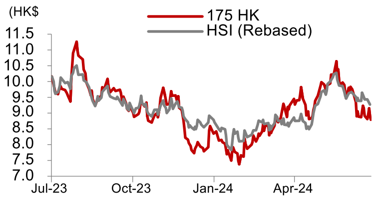
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-7.2%	-5.3%
3-mth	-4.9%	-11.2%
6-mth	2.3%	-1.5%

Source: FactSet

12-mth Price Performance



Source: FactSet

Related Reports

"Geely Automobile (175 HK) – Most businesses are trending up" – 21 Mar 2024

"Geely Automobile (175 HK) – Expect 2H23E net profit to double HoH" – 17 Jan 2024

Figure 1: Quarterly results

RMB mn	1Q23	2Q23	1Q24	YoY
Sales volume (units)	322,453	371,592	475,720	47.5%
ASP (RMB)	119,213	126,027	126,162	5.8%
Revenue	33,506	39,676	52,315	56.1%
Gross profit	4,747	5,793	7,147	50.6%
Selling exp.	(2,199)	(2,569)	(3,389)	54.1%
Admin exp.	(2,294)	(2,514)	(3,105)	35.4%
Operating profit	450	1,155	1,179	162.0%
Net profit	**714**	**857**	**1,561**	**118.6%**
Gross margin	14.2%	14.6%	13.7%	-0.5 ppt
Operating margin	1.3%	2.9%	2.3%	0.9 ppt
Net margin	2.1%	2.2%	3.0%	0.9 ppt

Source: Company data, CMBIGM

Figure 2: Earnings revision

	New			Old			Diff (%)		
RMB mn	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	227,474	240,150	255,120	210,799	226,560	N/A	7.9%	6.0%	N/A
Gross profit	33,668	35,116	38,064	31,273	33,863	N/A	7.7%	3.7%	N/A
Operating profit	5,619	6,065	7,248	5,789	6,053	N/A	-2.9%	0.2%	N/A
Net profit	7,046	7,742	8,826	6,693	7,319	N/A	5.3%	5.8%	N/A
Gross margin	14.8%	14.6%	14.9%	14.8%	14.9%	N/A	0.0 ppt	-0.3 ppt	N/A
Operating margin	2.5%	2.5%	2.8%	2.7%	2.7%	N/A	-0.3 ppt	-0.1 ppt	N/A
Net margin	3.1%	3.2%	3.5%	3.2%	3.2%	N/A	-0.1 ppt	0.0 ppt	N/A

Source: CMBIGM estimates

Figure 3: CMBI estimates vs consensus

	CMBIGM			Consensus			Diff (%)		
RMB mn	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	227,474	240,150	255,120	214,198	247,158	275,452	6.2%	-2.8%	-7.4%
Gross profit	33,668	35,116	38,064	33,458	39,464	45,395	0.6%	-11.0%	-16.1%
Operating profit	5,619	6,065	7,248	5,787	7,657	9,800	-2.9%	-20.8%	-26.0%
Net profit	7,046	7,742	8,826	7,072	9,176	11,165	-0.4%	-15.6%	-21.0%
Gross margin	14.8%	14.6%	14.9%	15.6%	16.0%	16.5%	-0.8 ppt	-1.3 ppt	-1.6 ppt
Operating margin	2.5%	2.5%	2.8%	2.7%	3.1%	3.6%	-0.2 ppt	-0.6 ppt	-0.7 ppt
Net margin	3.1%	3.2%	3.5%	3.3%	3.7%	4.1%	-0.2 ppt	-0.5 ppt	-0.6 ppt

Source: Bloomberg, CMBIGM estimates

Figure 4: Geely's SOTP valuation table

	FY24E (RMB bn)	Target P/E Multiple	Target P/S Multiple	Geely's Stake	Target Market Cap (HK$ bn)	Target Price (HK$)
Estimated core revenue of Zeekr	57	-	1.0x	55%	35	3.50
Estimated net profit for Geely's all other businesses	7.5	13.0x	-	-	106	10.50
SOTP					**141**	**14.00**

Source: CMBIGM estimates

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	**101,611**	**147,965**	**179,204**	**227,474**	**240,150**	**255,120**
Cost of goods sold	(84,199)	(127,069)	(151,789)	(193,806)	(205,034)	(217,056)
Gross profit	**17,412**	**20,896**	**27,415**	**33,668**	**35,116**	**38,064**
Operating expenses	**(13,020)**	**(17,506)**	**(22,962)**	**(28,049)**	**(29,051)**	**(30,816)**
Selling expense	(6,323)	(8,228)	(11,832)	(14,169)	(13,849)	(14,170)
Admin expense	(8,036)	(10,435)	(12,497)	(15,280)	(16,502)	(17,946)
Others	1,339	1,157	1,367	1,400	1,300	1,300
Operating profit	**4,393**	**3,389**	**4,453**	**5,619**	**6,065**	**7,248**
Other expense	(1,213)	(1,489)	(646)	(750)	(450)	(150)
Other gains/(losses)	0	1,750	0	0	0	0
Share of (losses)/profits of associates/JV	1,205	651	599	1,589	2,043	2,181
EBITDA	**11,823**	**13,551**	**13,570**	**15,770**	**18,567**	**21,714**
Depreciation	6,893	8,318	8,203	8,220	9,662	11,078
EBIT	**4,930**	**5,233**	**5,367**	**7,550**	**8,904**	**10,636**
Interest income	545	931	961	1,092	1,246	1,357
Interest expense	(265)	(551)	(417)	(342)	(368)	(368)
Net Interest income/(expense)	**280**	**380**	**544**	**750**	**878**	**989**
Foreign exchange gain/loss	125	(79)	(126)	0	0	0
Pre-tax profit	**4,665**	**4,682**	**4,950**	**7,208**	**8,537**	**10,268**
Income tax	(312)	(32)	(15)	(393)	(519)	(809)
After tax profit	**4,353**	**4,650**	**4,935**	**6,815**	**8,017**	**9,459**
Minority interest	494	611	373	231	(276)	(634)
Net profit	**4,847**	**5,260**	**5,308**	**7,046**	**7,742**	**8,826**
Gross dividends	1,788	1,916	2,033	2,536	2,787	12,003

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	**65,296**	**79,064**	**113,635**	**118,328**	**126,775**	**135,194**
Cash & equivalents	28,014	33,341	35,746	46,384	51,407	55,261
Restricted cash	4	387	943	943	943	943
Account receivables	31,549	34,392	42,711	53,846	56,846	60,390
Inventories	5,522	10,822	15,422	16,991	17,414	18,435
Prepayment	0	0	0	0	0	0
Other current assets	207	121	18,813	164	164	164
Non-current assets	**69,046**	**78,762**	**78,963**	**99,220**	**106,620**	**112,771**
PP&E	30,859	32,201	27,351	27,377	26,653	25,701
Right-of-use assets	3,436	3,402	3,600	3,551	3,512	3,475
Deferred income tax	2,435	4,573	6,342	6,342	6,342	6,342
Investment in JVs & assos	10,205	14,235	15,703	28,432	30,639	32,945
Intangibles	20,901	22,548	23,920	31,123	36,953	41,639
Goodwill	58	61	34	34	34	34
Financial assets at FVTPL	352	0	0	0	0	0
Other non-current assets	801	1,742	2,013	2,361	2,486	2,634
Total assets	**134,341**	**157,826**	**192,598**	**217,548**	**233,395**	**247,965**
Current liabilities	**60,351**	**68,953**	**96,824**	**112,275**	**121,415**	**128,444**
Short-term borrowings	1,907	0	0	0	0	0
Account payables	57,393	65,481	87,398	110,735	119,875	126,903
Tax payable	853	773	774	774	774	774
Other current liabilities	0	2,143	7,898	13	13	13
Lease liabilities	198	557	754	754	754	754
Non-current liabilities	**3,770**	**12,677**	**10,622**	**10,825**	**11,108**	**11,325**
Long-term borrowings	0	2,758	2,840	2,340	2,340	2,340
Bond payables	1,901	6,000	2,600	2,600	2,600	2,600
Convertible bonds	0	0	0	0	0	0
Other non-current liabilities	1,869	3,919	5,182	5,885	6,168	6,385
Total liabilities	**64,120**	**81,631**	**107,446**	**123,101**	**132,523**	**139,770**
Share capital	183	184	184	185	187	188
Other reserves	68,423	74,947	80,325	86,380	92,558	99,276
Total shareholders equity	**68,606**	**75,130**	**80,509**	**86,565**	**92,745**	**99,464**
Minority interest	1,615	1,065	4,643	7,882	8,128	8,731
Total equity and liabilities	**134,341**	**157,826**	**192,598**	**217,548**	**233,395**	**247,965**

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	**4,665**	**4,682**	**4,950**	**7,208**	**8,537**	**10,268**
Depreciation & amortization	6,893	8,318	8,203	8,220	9,662	11,078
Tax paid	(1,197)	(2,082)	(2,307)	(393)	(519)	(809)
Change in working capital	5,161	5,672	11,238	10,988	5,874	2,534
Others	(174)	(571)	259	(1,391)	(2,258)	(2,794)
Net cash from operations	**15,348**	**16,018**	**22,342**	**24,632**	**21,295**	**20,277**
Investing						
Capital expenditure	(6,100)	(10,337)	(15,322)	(15,469)	(14,913)	(15,071)
Acquisition of subsidiaries/ investments	(2,609)	(2,831)	(1,570)	(1,000)	(1,000)	(1,000)
Net proceeds from disposal of short-term investments	(323)	0	0	0	0	0
Others	1,873	1,037	748	1,836	2,202	2,352
Net cash from investing	**(7,159)**	**(12,130)**	**(16,145)**	**(14,633)**	**(13,712)**	**(13,719)**
Financing						
Dividend paid	(1,611)	(1,788)	(1,916)	(2,033)	(2,536)	(2,787)
Net borrowings	0	4,603	(6,306)	(1,000)	0	0
Proceeds from share issues	0	0	0	0	0	0
Others	2,527	(1,490)	5,458	3,672	(24)	83
Net cash from financing	**916**	**1,325**	**(2,764)**	**639**	**(2,560)**	**(2,704)**
Net change in cash						
Cash at the beginning of the year	18,977	28,014	33,341	35,746	46,384	51,407
Exchange difference	(68)	114	(1,029)	0	0	0
Cash at the end of the year	**28,014**	**33,341**	**35,746**	**46,384**	**51,407**	**55,261**

GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	10.3%	45.6%	21.1%	26.9%	5.6%	6.2%
Gross profit	18.2%	20.0%	31.2%	22.8%	4.3%	8.4%
Operating profit	(11.6%)	(22.8%)	31.4%	26.2%	7.9%	19.5%
EBITDA	(2.3%)	14.6%	0.1%	16.2%	17.7%	16.9%
EBIT	(25.4%)	6.1%	2.6%	40.7%	17.9%	19.4%
Net profit	(12.4%)	8.5%	0.9%	32.7%	9.9%	14.0%

PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	17.1%	14.1%	15.3%	14.8%	14.6%	14.9%
Operating margin	4.3%	2.3%	2.5%	2.5%	2.5%	2.8%
EBITDA margin	11.6%	9.2%	7.6%	6.9%	7.7%	8.5%
Return on equity (ROE)	7.3%	7.3%	6.8%	8.4%	8.6%	9.2%

GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	(0.4)	(0.3)	(0.4)	(0.5)	(0.5)	(0.5)
Current ratio (x)	1.1	1.1	1.2	1.1	1.0	1.1
Receivable turnover days	116.5	88.7	91.1	90.0	90.0	90.0
Inventory turnover days	24.0	31.2	37.2	32.0	31.0	31.0
Payable turnover days	253.7	193.2	217.3	215.0	220.0	220.0

VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	16.6	15.6	15.5	11.7	10.7	9.5
P/E (diluted)	16.7	15.8	15.6	11.8	10.8	9.6
P/B	1.2	1.1	1.0	1.0	0.9	0.8
P/CFPS	5.2	5.1	3.7	3.3	3.9	4.1
Div yield (%)	2.2	2.3	2.5	3.1	3.4	14.3

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

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