

GAC Group (2238 HK)

2Q23E NP to fall QoQ; Hyper margin key in 2H23

Maintain BUY. We project GAC Group's 2Q23E net profit to fall 7% QoQ to RMB 1.4bn despite strong sales volume for Aion, as we expect margin improvement to be offset by declining equity income from joint ventures (JVs) and associates. We still believe GAC is a defensive player, as we only value Aion HK\$ 60bn now. We are of the view that the profitability for the Hyper series could be key to Aion.

■ **We project 2Q23E net profit to fall 7% QoQ to RMB 1.4bn.** Although we expect GAC's revenue to rise 52% YoY aided by Aion's strong sales volume, we project gross margin to only improve by 1.7 pts QoQ to 4% in 2Q23E, amid heightened competition. We also project equity income from JVs and associates to fall 8% QoQ to RMB 2.7bn in 2Q23E amid the price war and declining sales volume for GAC Honda. We expect SG&A ratio to narrow QoQ in 2Q23E amid strong top-line growth. We assume impairment to be RMB 250mn in 2Q23E, although there is still risk for GAC Mitsubishi's goodwill impairment. Accordingly, we estimate GAC's net profit in 2Q23E to fall 48% YoY and 7% QoQ to RMB 1.4bn.

■ **We cut FY23-24E net profit by 15% and 11%.** Although we have been warning investors since [Oct 2022](#) that FY23E consensus was overstated, we continue to cut earnings forecasts for most companies. Management now counts on the Hyper series models (double-digit gross margin) to turn Aion profitable. We lower our gross margin projection for Aion to 2% in FY23E despite our sales volume forecast of 0.48mn units. We expect Aion to narrow losses significantly in FY24E and project GAC's homegrown brands (Trumpchi, Aion and research institute) to be profitable in FY25E. Our earnings cuts for FY23E and FY24E are mainly due to profitability in JVs and associates. We revise up FY25E net profit estimates by 20% to RMB 8.0bn.

■ **Valuation/Key risks.** We use sum-of-the-parts (SOTP) valuation to factor in Aion's planned spin-off. We value Aion HK\$ 4.3 per share, based on 0.7x our revised FY24E P/S (previously 1x FY23E). We lower our price multiple to reflect its weak margins. We value HK\$ 2.7 per share for JVs and associates based on 3.0x our FY24E P/E (previously 3.0x FY23E), which is equivalent to a conservative dividend discount model assuming equity income to decline YoY significantly from FY25E and become 0 in FY30E. We value 0 for Trumpchi. Accordingly, we maintain BUY rating and lower target price slightly from HK\$ 7.50 to HK\$ 7.00. 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	137,042	145,964	155,076
YoY growth (%)	19.8	45.4	24.6	6.5	6.2
Net income (RMB mn)	7,511	7,983	5,612	6,259	8,015
EPS (RMB)	0.73	0.77	0.53	0.59	0.76
YoY growth (%)	25.9	6.3	(29.7)	11.5	28.1
P/E (x)	5.2	5.1	7.9	7.1	5.5
P/B (x)	0.4	0.4	0.4	0.4	0.3
Yield (%)	3.6	4.2	2.6	2.8	3.6
ROE (%)	8.6	7.8	4.9	5.2	6.4
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$ 7.00
(Previous TP	HK\$ 7.50)
Up/Downside	+49.9%
Current Price	HK\$ 4.67

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Stock Data

Mkt Cap (HK\$ mn)	48,960
Avg 3 mths t/o (HK\$ mn)	60
52w High/Low (HK\$)	8.18/4.40
Total Issued Shares (mn)	10,483
Source: Bloomberg	

Shareholding Structure

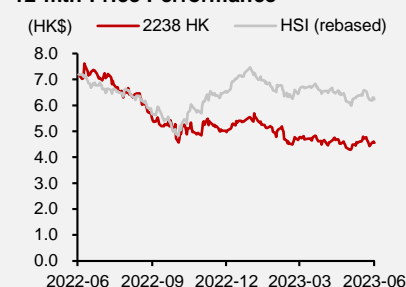
Guangzhou Automobile	52.5%
Industry	
Others	47.5%
Source: HKEx	

Share Performance

	Absolute	Relative
1-mth	-0.6%	-0.5%
3-mth	-7.2%	0.2%
6-mth	-12.4%	-6.3%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PricewaterhouseCoopers

Related Reports

["GAC Group – 1Q23 earnings miss on gross margin" – 2 May 2023](#)

Figure 1: Quarterly results

RMB mn	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23E	YoY	QoQ
Sales volume (units)	608,167	541,759	675,024	608,761	539,875	602,400	11.2%	11.6%
Revenue	23,268	25,421	31,678	29,639	26,557	38,640	52.0%	45.5%
Gross profit	1,025	1,160	1,470	2,320	610	1,546	33.3%	153.4%
R&D expenses	(241)	(319)	(388)	(760)	(397)	(541)	69.8%	36.2%
SG&A expenses	(2,110)	(2,287)	(2,324)	(1,676)	(1,883)	(2,434)	6.5%	29.3%
Investment Income	4,227	4,271	3,770	2,049	2,955	2,724	-36.2%	-7.8%
Operating profit	2,854	2,883	2,102	(383)	1,145	1,169	-59.4%	2.1%
Net profit	3,009	2,742	2,312	6	1,538	1,425	-48.0%	-7.3%
Gross margin	4.4%	4.6%	4.6%	7.8%	2.3%	4.0%	-0.6 ppt	1.7 ppt
Operating margin	12.3%	11.3%	6.6%	-1.3%	4.3%	3.0%	-8.3 ppt	-1.3 ppt
Net margin	12.9%	10.8%	7.3%	0.0%	5.8%	3.7%	-7.1 ppt	-2.1 ppt

Source: Company data, CMBIGM

Figure 2: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	137,042	145,964	155,076	114,761	121,694	119,288	19.4%	19.9%	30.0%
Gross profit	5,615	9,110	14,183	4,030	6,463	8,126	39.3%	41.0%	74.5%
Operating profit	(5,773)	(3,234)	504	(5,745)	(3,592)	(1,994)	N/A	N/A	N/A
Net profit	5,612	6,259	8,015	6,568	7,053	6,687	-14.6%	-11.3%	19.9%
Gross margin	4.1%	6.2%	9.1%	3.5%	5.3%	6.8%	0.6 ppt	0.9 ppt	2.3 ppt
Operating margin	-4.2%	-2.2%	0.3%	-5.0%	-3.0%	-1.7%	0.8 ppt	0.7 ppt	2.0 ppt
Net margin	4.1%	4.3%	5.2%	5.7%	5.8%	5.6%	-1.6 ppt	-1.5 ppt	-0.4 ppt

Source: CMBIGM estimates

Figure 3: CMBI estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	137,042	145,964	155,076	127,690	142,866	157,731	7.3%	2.2%	-1.7%
Gross profit	5,615	9,110	14,183	8,696	11,359	13,953	-35.4%	-19.8%	1.7%
Operating profit	(5,773)	(3,234)	504	(4,975)	(4,189)	(1,052)	N/A	N/A	N/A
Net profit	5,612	6,259	8,015	8,353	8,939	9,570	-32.8%	-30.0%	-16.2%
Gross margin	4.1%	6.2%	9.1%	6.8%	8.0%	8.8%	-2.7 ppt	-1.7 ppt	0.3 ppt
Operating margin	-4.2%	-2.2%	0.3%	-3.9%	-2.9%	-0.7%	-0.3 ppt	0.7 ppt	1.0 ppt
Net margin	4.1%	4.3%	5.2%	6.5%	6.3%	6.1%	-2.4 ppt	-2.0 ppt	-0.9 ppt

Source: Bloomberg, CMBIGM estimates

Figure 4: 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	79	-	0.7x	75%	45	4.3
Estimated Share of Profits of Joint Ventures & Associates	9	3.0x	-	-	29	2.7
SOTP					74	7.0

Source: CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	75,676	110,006	137,042	145,964	155,076
Cost of sales	(71,777)	(105,550)	(131,427)	(136,855)	(140,893)
Gross profit	3,899	4,457	5,615	9,110	14,183
Selling exp.	(4,340)	(4,228)	(4,778)	(5,412)	(5,969)
Admin exp.	(4,556)	(5,487)	(7,436)	(7,951)	(8,730)
Other gains	1,371	(1,409)	826	1,020	1,020
Operating profit	(3,626)	(6,668)	(5,773)	(3,234)	504
Net finance costs	(367)	(21)	(49)	51	137
Profit share of asso.&JVs	11,404	14,065	10,585	9,135	7,744
Pre-tax profit	7,412	7,377	4,763	5,952	8,384
Tax	154	536	175	95	(13)
Minority interests	(55)	71	674	211	(357)
Net profit	7,511	7,983	5,612	6,259	8,015

Cash flow

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Profit before taxation	7,412	7,377	4,763	5,952	8,384
Depreciation/amortization	5,719	6,690	7,547	8,500	9,467
Change in working capital	(8,134)	(9,458)	(1,997)	365	(1,948)
Others	(11,488)	(11,246)	(9,387)	(7,705)	(6,572)
Net cash from operating	(6,491)	(6,638)	926	7,113	9,331
Capex	(6,243)	(8,014)	(9,000)	(9,100)	(9,100)
Others	13,478	6,421	9,715	7,867	5,667
Net cash from investing	7,235	(1,592)	715	(1,233)	(3,433)
Net borrowings	2,657	6,200	(7,539)	(753)	(3,481)
Dividend paid	(2,135)	(2,485)	(2,394)	(1,869)	(2,156)
Others	255	21,466	(268)	(261)	(254)
Net cash from financing	777	25,181	(10,201)	(2,883)	(5,891)
Net change in cash	1,520	16,950	(8,560)	2,997	7
Cash at year beginning	15,791	17,235	34,222	25,662	28,659
Exchange difference	(76)	37	-	-	-
Cash at year end	17,235	34,222	25,662	28,659	28,666

Balance sheet

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Current assets	61,192	91,792	96,854	103,257	106,577
Cash & equivalents	17,235	34,222	25,662	28,659	28,666
Account receivables	25,110	31,597	43,178	45,989	48,860
Inventories	8,111	12,362	14,403	14,998	15,440
Other current assets	10,736	13,612	13,612	13,612	13,612
Non-current assets	93,059	98,283	100,402	101,661	102,845
PP&E	19,476	20,761	19,645	18,502	17,262
Intangibles	13,581	14,471	16,379	17,257	17,451
Deferred income tax	2,834	3,715	3,715	3,715	3,715
Other non-current assets	57,168	59,335	60,663	62,187	64,416
Total assets	154,251	190,075	197,257	204,918	209,422
Current liabilities	49,133	56,688	61,535	64,223	61,982
Bank borrowings	9,889	13,813	6,704	5,263	1,283
Account payables	38,490	42,069	54,011	58,116	59,831
Tax payable	202	185	185	185	185
Other current liabilities	551	622	635	658	683
Non-current liabilities	12,469	11,084	10,075	10,582	11,111
Bank borrowings	7,527	5,697	4,697	5,197	5,697
Government Grants	2,196	2,183	2,056	1,947	1,855
Other non-current liabilities	2,747	3,204	3,323	3,438	3,559
Total liabilities	61,602	67,772	71,610	74,805	73,093
Share capital	10,371	10,487	10,518	10,528	10,528
Reserves	79,943	102,802	106,859	111,607	117,546
Non-controlling interests	2,335	9,014	8,270	7,979	8,255
Shareholders' equity	90,313	113,289	117,377	122,135	128,074
Total equity and liabilities	154,251	190,075	197,257	204,918	209,422

Key ratios

YE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Sales mix (%)					
Automobile	65.0	71.5	77.0	78.1	80.0
Parts and services	32.1	25.2	20.2	18.9	17.1
Finance and others	2.9	3.2	2.9	3.0	2.9
Growth (%)					
Revenue	19.8	45.4	24.6	6.5	6.2
Gross profit	69.8	14.3	26.0	62.2	55.7
Operating profit	1.6	83.9	(13.4)	(44.0)	(115.6)
Net profit	25.9	6.3	(29.7)	11.5	28.1
Profit & loss ratio (%)					
Gross margin	5.2	4.1	4.1	6.2	9.1
Operating margin	(4.8)	(6.1)	(4.2)	(2.2)	0.3
Net profit margin	9.9	7.3	4.1	4.3	5.2
Balance sheet ratio					
Net cash/total equity (x)	0.1	0.1	0.1	0.2	0.2
Current ratio (x)	1.2	1.6	1.6	1.6	1.7
Receivable turnover days	121	105	115	115	115
Inventory turnover days	41	43	40	40	40
Payable turnover days	196	145	150	155	155
Profitability (%)					
ROE	8.6	7.8	4.9	5.2	6.4
ROA	5.1	4.6	2.9	3.1	3.9
Per share data (RMB)					
EPS	0.73	0.77	0.53	0.59	0.76
DPS	0.22	0.24	0.17	0.18	0.24

Source: Company data, CMBIGM estimates

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