

# GAC Group (2238 HK)

## Promising performance after the epidemic

We raised our 2019E bottom-line forecast by 11.5% based on the published sales volume for 2019. In the meanwhile, we take into account the impact of the COVID-19 outbreak on 2020E and lower our 2020E top-line forecast by 6.2%. However, we believe that delayed demand, strong product pipeline, and policy support will make GAC's sales volume soar after the epidemic. We maintain BUY rating and upgrade our TP to HK\$10.91 from HK\$9.05.

- **GAC Group sold 2.06 mn units in 2019, down 4.0% YoY, missing its sales target of 2.22 mn.** Prior to the epidemic outbreak, GAC set its 2020E sales target to be 2.22 mn units, with a target growth rate of 8% YoY. The Company's market share in 2019 increased from 7.64% to 8.01%. In the past five years, its market share has expanded by 3 ppts. We believe that good product quality and excellent supply chain management will lead to further market share expansion. We forecast its total sales volume to be 2.14 mn in 2020E with an increase of 3.6% YoY.
- **In the past two years, the sales composition of 1Q/2Q/3Q/4Q was about 24%/24%/25%/27% respectively.** Due to the impact of the COVID-19 outbreak, car demand has been postponed to the rest of the year. Furthermore, as we mentioned earlier, GAC was planning to replenish its inventory in 1Q20 given that it has more stage-5 vehicles than its peers. By adding up the above two factors, we believe the Company's sales volume will be skyrocket from 2Q20E.
- **A new generation of GS4 was launched in Nov 2019.** Based on past sales data, GS4 sales volume accounted for about 45% of the *Trumpchi* product family. In Jan 2020, GS4 achieved 16,771 units in a single month, an increase of 133% YoY which reflects product recognition of its consumers. We believe that GAMC will achieve rapid growth lead by GS4 after the outbreak settles.
- **Breeze (皓影), the brand new vehicle of GAC Honda was launched in Nov 2019.** It has sold 9,539 in Jan 2020 and maintained its strong momentum. In 2020, GAC Honda will start to produce a new generation of *FIT* (飞度) locally. Other products include *Avancier* (Facelift model) and *Crider* (Hybrid version) will also be rolled out in 2020. GAC Honda has set a growth target of 'not less than 5%' while we forecast that its sales volume will achieve a growth rate of 4% YoY.
- **Willander (威兰达), a new model of GAC Toyota, will be officially launched online on 28 Feb 2020.** The price range of RMB 170K to RMB250K creates direct competition to its sister model of RAV4 (荣放). In addition, a new generation of *Highlander* will also be launched at the end of 2020. For NEV, Toyota Mirai is expected to be introduced into the China market through GAC Toyota within 2020. Toyota China expects its total sales volume to increase by 8.6% in 2020E while we expect GAC Toyota will achieve an 8.0% YoY growth rate.

**BUY (Maintain)**

Target Price	HK\$10.91
(Previous TP	HK\$9.05)
Up/Downside	+17.81%
Current Price	HK\$9.26

### China Auto Sector

**Jack Bai**  
 (852) 3900 0835  
 jackbai@cmbi.com.hk

### Stock Data

Mkt Cap (mn)	121,888
3-mth average daily turnover (mn)	229.40
52-week high/low	10.60/ 6.95
Equity share - 2238 HK	3,099
Equity Share - 601238 CH	7,139

Source: Bloomberg

### Shareholding Structure

Guangzhou Automobile Industry Group Co., Ltd	53.56%
Citigroup Inc.	1.96%
Schroders Plc	1.80%

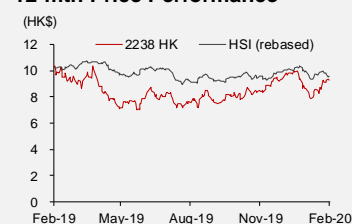
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	8.0%	12.5%
3-mth	11.4%	10.5%
6-mth	22.0%	19.1%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

**Auditor: PricewaterhouseCoopers**

### Related Reports

1. GAC Group (2238 HK) – "Expect earnings rebound in 2020E" – 31 Oct 2019
2. GAC Group (2238 HK) – "Outperformed the overall market in 1H19" – 4 Oct 2019

- **The total sales volume in Guangdong accounted for about 25% of GAC Group's total sales.** In our observation, Guangdong is one of the most advanced provinces in supporting auto consumption. On 17 Feb, Foshan was the first city to roll out the auto policy which will be effective on 1 Mar. Specifically, direct subsidies ranging from RMB 2,000 to RMB 5,000 will be granted to each customer. On 21 Feb, Guangdong encouraged cities to introduce subsidy policies for car replacement and encouraged Guangzhou/Shenzhen to further relax car quotas. We believe relevant policies will further support GAC Group's performance.
- **We revised down our top-line forecast in 2020E by 6.2% to reflect the impact of the COVID-19 outbreak.** We revised up our bottom-line forecast in 2020E by 2.9% to reflect our expectation on GAC Toyota and GAC Honda. However, we believe the auto market will surprise many given its fundamental and policy support. Our TP is revised up to HK\$10.91 (based on revised 9.6x 2020E P/E) from HK\$9.05 (based on initial 8.2x 2020E P/E) with an upside of 17.81%. Reiterate BUY.

### Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue (RMB mn)	71,575	72,380	58,404	62,548	66,205
YoY growth (%)	44.84%	1.12%	-19.31%	7.10%	5.85%
Net income (RMB mn)	11,005	10,900	8,356	10,192	11,425
EPS (RMB)	1.51	1.07	0.82	1.00	1.12
YoY growth (%)	55%	-29%	-23%	22%	12%
P/E (x)	5.41	7.65	9.98	8.18	7.30
P/B (x)	0.85	1.07	0.97	0.87	0.77
Yield (%)	3.24%	4.52%	4.64%	4.07%	4.58%
ROE (%)	19.43%	14.93%	10.34%	11.31%	11.32%
Net gearing (%)	17%	34%	26%	24%	27%

Source: Company data, CMBIS estimates

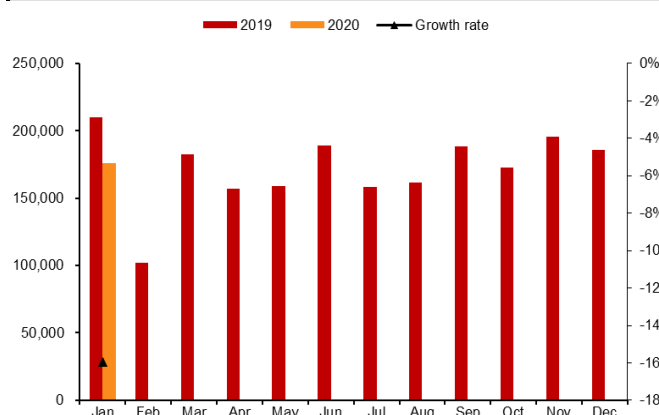
## Focus Charts

Figure 1: Earnings revision

	2019E	Old 2020E	2021E	2019E	New 2020E	2021E	Change (%/ppt)		
Revenue	62,593	66,663	70,432	58,404	62,548	66,205	-6.7%	-6.2%	-6.0%
Net income	7,492	9,901	11,581	8,356	10,192	11,425	11.5%	2.9%	-1.3%
EPS	0.74	0.97	1.14	0.82	1.00	1.12	10.8%	3.1%	-1.7%
GPM	8.6%	11.6%	13.3%	9.4%	11.9%	13.3%	0.8	0.3	0.0
NPM	12.0%	14.9%	16.4%	14.3%	16.3%	17.3%	2.3	1.4	0.8

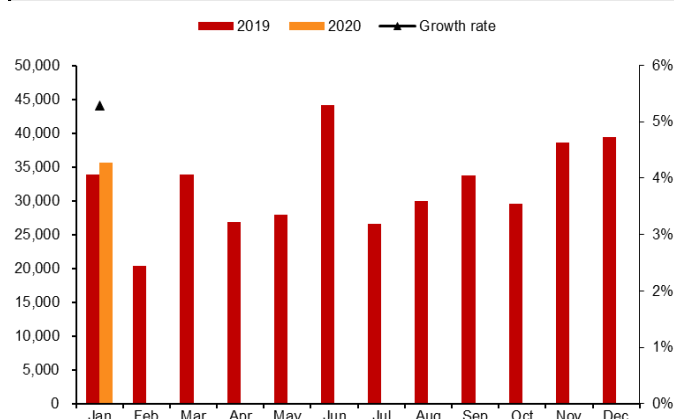
Source: Company data, CMBIS estimates

Figure 2: GAC Group sales volume



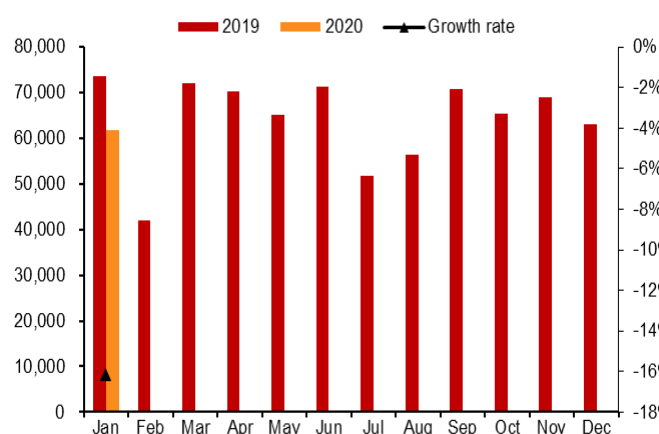
Source: Wind, CMBIS

Figure 3: GAC Motor sales volume



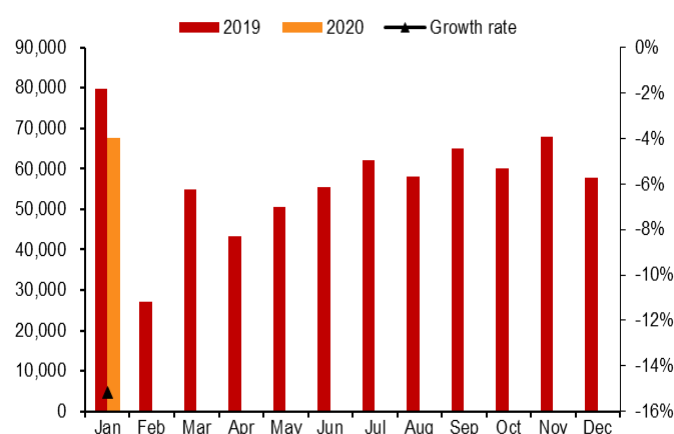
Source: Wind, CMBIS

Figure 4: GAC Honda sales volume

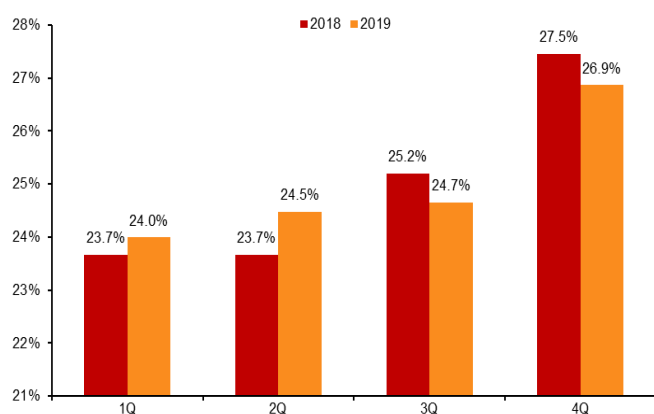


Source: Wind, CMBIS

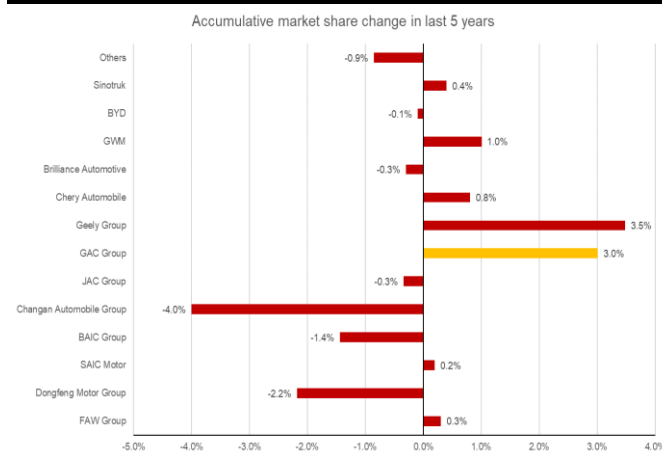
Figure 5: GAC Toyota sales volume



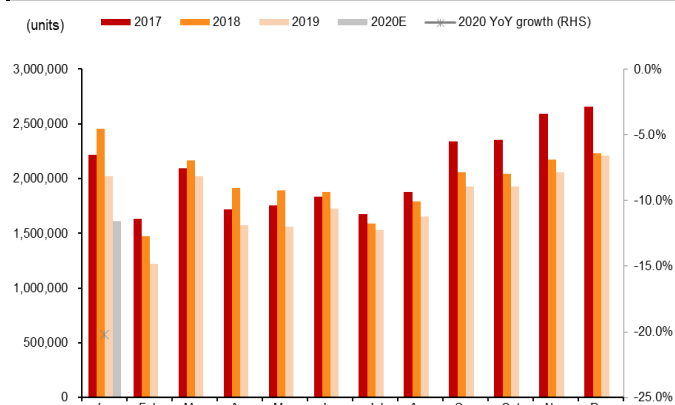
Source: Wind, CMBIS

**Figure 6: Quarterly sales proportion**

Source: Wind, CMBIS

**Figure 7: Market share change in last five years**

Source: Wind, CMBIS

**Figure 8: China PV sales volume**

Source: CAAM, CMBIS

**Figure 9: P/E Chart**

Source: Bloomberg, CMBIS

**Figure 10: Breeze (皓影)**

Source: Autohome, CMBIS

**Figure 11: Willander (威兰达)**

Source: Autohome, CMBIS

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Revenue</b>	<b>71,575</b>	<b>72,380</b>	<b>58,404</b>	<b>62,548</b>	<b>66,205</b>
Cost of sales	(58,716)	(60,836)	(52,913)	(55,084)	(57,418)
<b>Gross profit</b>	<b>12,858</b>	<b>11,544</b>	<b>5,491</b>	<b>7,464</b>	<b>8,787</b>
Selling & distribution costs	(5,250)	(5,073)	(4,130)	(4,424)	(4,682)
Administrative expenses	(4,022)	(4,519)	(3,388)	(3,629)	(3,841)
Net impairment loss on financial assets	0	(7)	(1)	(1)	(1)
Interest income from time deposits	343	453	408	437	462
Other gains – net	562	1,068	571	611	647
Operating profit/(loss)	<b>4,492</b>	<b>3,466</b>	<b>(1,051)</b>	<b>459</b>	<b>1,372</b>
Finance costs	(646)	(459)	(498)	(498)	(498)
Interest income from cash	53	103	85	64	53
Share of profit of JV & associates	8,296	8,753	10,532	11,036	11,472
<b>Profit before income tax</b>	<b>12,194</b>	<b>11,863</b>	<b>9,069</b>	<b>11,062</b>	<b>12,400</b>
Income tax expense	(1,154)	(921)	(680)	(830)	(930)
<b>Profit for the year</b>	<b>11,040</b>	<b>10,942</b>	<b>8,389</b>	<b>10,232</b>	<b>11,470</b>
Less: MI	35	43	33	40	45
<b>Net Profit</b>	<b>11,005</b>	<b>10,900</b>	<b>8,356</b>	<b>10,192</b>	<b>11,425</b>

### Cash flow

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Net income</b>	<b>11,040</b>	<b>10,942</b>	<b>8,389</b>	<b>10,232</b>	<b>11,470</b>
D&A	2,397	3,140	2,416	3,171	4,387
Change in working capital	(16,601)	703	(1,064)	1,058	121
Others	8,661	1,427	4,714	4,263	4,564
<b>Net cash from operating</b>	<b>5,498</b>	<b>16,213</b>	<b>14,454</b>	<b>18,723</b>	<b>20,543</b>
Capex & investments	(7,659)	(9,108)	(10,119)	(12,744)	(16,348)
Associated companies	(3,085)	(3,252)	(3,814)	(4,404)	(4,976)
Others	7,661	14,172	-	-	-
<b>Net cash from investing</b>	<b>(3,082)</b>	<b>1,811</b>	<b>(13,933)</b>	<b>(17,149)</b>	<b>(21,324)</b>
Equity raised	840	2,939	-	-	-
Change of debts	(3,911)	1,528	-	-	-
Dividend paid	(1,936)	(3,786)	(3,887)	(3,407)	(3,832)
Others	6,651	8,887	-	-	-
<b>Net cash from financing</b>	<b>1,644</b>	<b>9,568</b>	<b>(3,887)</b>	<b>(3,407)</b>	<b>(3,832)</b>
<b>Net change in cash</b>	<b>4,060</b>	<b>27,592</b>	<b>(3,366)</b>	<b>(1,833)</b>	<b>(4,613)</b>
Cash at the beginning	35,294	39,355	31,572	28,206	26,373
Exchange difference	-	(35,375)	-	-	-
<b>Cash at the end</b>	<b>39,355</b>	<b>31,572</b>	<b>28,206</b>	<b>26,373</b>	<b>21,760</b>
Less: pledged cash	2,156	3,842	3,842	3,842	3,842

### Balance sheet

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Non-current assets</b>	<b>55,171</b>	<b>65,963</b>	<b>75,011</b>	<b>88,294</b>	<b>104,750</b>
Fixed asset	13,405	16,318	19,544	22,857	26,198
Intangible assets	5,861	8,540	11,618	16,376	23,580
Interest in JV / associates	25,743	28,995	32,809	37,214	42,190
Other non-current assets	10,161	12,109	11,039	11,847	12,782
<b>Current assets</b>	<b>64,485</b>	<b>66,211</b>	<b>57,792</b>	<b>54,399</b>	<b>49,880</b>
Cash	39,355	31,572	28,206	26,373	21,760
Account receivable	10,638	16,605	14,170	12,774	12,728
Inventory	3,347	6,730	4,112	3,948	4,088
Other current assets	11,146	11,304	11,304	11,304	11,304
<b>Current liabilities</b>	<b>36,618</b>	<b>40,291</b>	<b>32,853</b>	<b>34,064</b>	<b>35,223</b>
Borrowings	2,640	2,829	2,829	2,829	2,829
Account payables	33,071	35,786	28,213	29,332	30,468
Other payables	0	1,336	1,336	1,336	1,336
Tax payables	907	340	475	568	590
<b>Non-current liabilities</b>	<b>12,570</b>	<b>13,908</b>	<b>13,587</b>	<b>12,034</b>	<b>11,341</b>
Borrowings	8,273	9,611	9,611	9,611	9,611
Provisions	915	675	547	610	682
Deferred income tax	108	161	79	100	117
Others	3,275	3,461	3,349	1,713	930
<b>Minority Interest</b>	<b>1,044</b>	<b>1,371</b>	<b>1,371</b>	<b>1,371</b>	<b>1,371</b>
<b>Shareholders' equity</b>	<b>69,424</b>	<b>76,604</b>	<b>84,992</b>	<b>95,224</b>	<b>106,694</b>
<b>Total net assets</b>	<b>70,468</b>	<b>77,975</b>	<b>86,363</b>	<b>96,595</b>	<b>108,065</b>

### Key ratios

YE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Sales mix (%)</b>					
Automobile manufacturing industry	70%	70%	59%	57%	55%
Auto-parts manufacturing industry	4%	4%	6%	6%	6%
Commercial services	23%	23%	32%	33%	35%
Financial services	3%	4%	4%	4%	4%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>P&amp;L ratios (%)</b>					
Gross profit margin	18%	16%	9%	12%	13%
Pre-tax margin	17%	16%	16%	18%	19%
Net margin	15%	15%	14%	16%	17%
Effective tax rate	9%	8%	8%	8%	8%
<b>Balance sheet ratios</b>					
Current ratio (x)	1.76	1.64	1.76	1.60	1.42
Quick ratio (x)	1.67	1.48	1.63	1.48	1.30
Cash ratio (x)	1.07	0.78	0.86	0.77	0.62
Debtors turnover days	6.73	4.36	4.12	4.90	5.20
Total debt/ total equity ratio (%)	70%	70%	54%	48%	43%
Net debt/ equity ratio (%)	17%	34%	26%	24%	27%
<b>Returns (%)</b>					
ROE	19%	15%	10%	11%	11%
ROA	13%	10%	7%	8%	9%
<b>Per share</b>					
EPS (RMB)	1.51	1.07	0.82	1.00	1.12
DPS (RMB)	0.27	0.37	0.38	0.33	0.37
BVPS (RMB)	9.66	7.62	8.44	9.44	10.56

Source: Company data, CMBIS estimates

# Disclosures & Disclaimers

## Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

## CMBIS Ratings

<b>BUY</b>	: Stock with potential return of over 15% over next 12 months
<b>HOLD</b>	: Stock with potential return of +15% to -10% over next 12 months
<b>SELL</b>	: Stock with potential loss of over 10% over next 12 months
<b>NOT RATED</b>	: Stock is not rated by CMBIS

<b>OUTPERFORM</b>	: Industry expected to outperform the relevant broad market benchmark over next 12 months
<b>MARKET-PERFORM</b>	: Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
<b>UNDERPERFORM</b>	: Industry expected to underperform the relevant broad market benchmark over next 12 months

## CMB International Securities Limited

**Address:** 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

**CMB International Securities Limited ("CMBIS") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)**

## Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIS does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIS recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIS, solely for the purpose of supplying information to the clients of CMBIS or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIS nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIS has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIS provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIS may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIS may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIS may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIS does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIS may have a conflict of interest that could affect the objectivity of this report and CMBIS will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIS.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIS.

For recipients of this document in the United States

This report is intended for distribution in the United States to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this research report by its acceptance hereof represents and agrees that it shall not distribute or provide this research report to any other person.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.