

Geely Automobile (175 HK)

3Q24 NEV sales and profits pave way for FY25

Maintain BUY. Despite an unexciting net profit, its SG&A cost control and NEV profitability were impressive in 3Q24. We expect the current strong NEV sales momentum to extend into 2025, leading to substantial core profit growth.

- 3Q24 operating profit beat.** Geely's 3Q24 revenue was 2% lower than our prior forecast. GPM in 3Q24 was 0.3ppts lower than our estimates, largely due to the accounting standard changes to book warranty costs under COGS which dragged down its GPM by about 0.4ppts. Excluding such impact, SG&A ratio in 3Q24 was still about 1.6ppts lower than our prior forecast. Operating profit of RMB3.0bn in 3Q24 was 13% higher than our estimates. Net profit excluding Lynk & Co's impairment of RMB2.76bn in 3Q24 was largely in line with our prior forecast of RMB2.75bn.
- FY25 outlook.** We raise our FY25E sales volume by 18% to 2.38mn units, as the recently launched NEV models, including the Galaxy E5 and Starwish, have been well received. We project NEV sales volume at Geely to surge 51% YoY to 1.32mn units in FY25E, or 55% of its total sales volume. According to management, net profit of Geely's NEV business (including Zeekr under the HKFRS accounting standards) turned to positive territory in 3Q24, driven by the new models based on the GEA platform and greater economies of scale. We expect these factors to continue supporting GPM in FY25E and therefore, we project a GPM of 15.6% in FY25E (vs. 15.5% in FY24E), despite higher sales contribution from NEVs. Accordingly, we revise up our FY25E net profit forecast by 43% to RMB12.4bn.
- We view Lynk & Co's move as necessary.** Zeekr is to own 51% equity interest of Lynk & Co after acquiring 20% from Geely's parent, 30% from Volvo Car (VOLCARB SS, NR) and a capital injection. Such business combination could at least reduce product cannibalization and cut costs, in our view. That, along with the sales network combination between Geometry and Galaxy, reminds us of the brand combination of Emgrand, Gleagle and Englon in 2014. Geely's sales volume rose 22%, 50% and 62% YoY in FY15-17, respectively.
- Valuation/Key risks.** We value Zeekr at 0.7x (unchanged) our revised FY25 core revenue, which implies US\$8.3bn for Zeekr's valuation. We value Geely's all other businesses excluding Zeekr at 12x (unchanged) FY25E P/E. We maintain our BUY rating and raise our target price from HK\$14.00 to HK\$19.00. Our net target price corresponds to 14x our FY25E P/E. Key risks to our rating and target price include lower sales volume and GPM, especially for NEVs, than we expect and a sector de-rating.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	147,965	179,204	240,904	276,930	299,715
YoY growth (%)	45.6	21.1	34.4	15.0	8.2
Net profit (RMB mn)	5,260.4	5,308.4	16,595.9	12,459.0	13,550.7
YoY growth (%)	8.5	0.9	212.6	(24.9)	8.8
EPS (Reported) (RMB)	0.52	0.53	1.65	1.23	1.32
P/E (x)	24.6	24.5	7.8	10.5	9.8
P/B (x)	1.7	1.6	1.4	1.3	1.2
Yield (%)	1.5	1.6	2.5	3.4	3.7
ROE (%)	7.3	6.8	19.3	12.9	12.7
Net gearing (%)	(33.2)	(38.8)	(46.4)	(54.8)	(58.0)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$19.00
(Previous TP)	HK\$14.00)
Up/Downside	36.7%
Current Price	HK\$13.90

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Stock Data

Mkt Cap (HK\$ mn)	139,881.0
Avg 3 mths t/o (HK\$ mn)	1,018.3
52w High/Low (HK\$)	15.04/7.34
Total Issued Shares (mn)	10063.4

Source: FactSet

Shareholding Structure

Mr. Li Shufu	41.2%
Others	58.8%

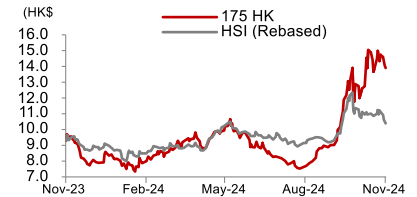
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	8.9%	18.2%
3-mth	81.2%	59.6%
6-mth	36.0%	33.5%

Source: FactSet

12-mth Price Performance



Source: FactSet

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["Geely Automobile \(175 HK\) – Solid 1Q24 with better 2H24 earnings ahead" – 2 Jul 2024](#)

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Figure 1: Quarterly results

RMB mn	1Q23	2Q23	3Q23	1Q24	2Q24	3Q24	YoY	QoQ
Sales volume (units)	322,453	371,592	461,233	475,720	480,010	533,960	15.8%	11.2%
ASP (RMB)	119,213	126,027	127,785	126,162	132,486	130,026	1.8%	-1.9%
Revenue	33,506	39,676	50,107	52,315	54,990	60,379	20.5%	9.8%
Gross profit	4,747	5,793	7,739	7,147	9,074	9,408	21.6%	3.7%
Selling exp.	(2,199)	(2,569)	(3,106)	(3,389)	(2,938)	(2,696)	-13.2%	-8.2%
Admin exp.	(2,294)	(2,514)	(3,182)	(3,105)	(4,089)	(3,496)	9.9%	-14.5%
Operating profit	450	1,155	1,678	1,179	2,397	3,035	80.9%	26.6%
Net profit	714	857	1,276	1,561	9,037	2,455	92.3%	-72.8%
Gross margin	14.2%	14.6%	15.4%	13.7%	16.5%	15.6%	0.1 ppt	-0.9 ppt
Operating margin	1.3%	2.9%	3.3%	2.3%	4.4%	5.0%	1.7 ppt	0.7 ppt
Net margin	2.1%	2.2%	2.5%	3.0%	16.4%	4.1%	1.5 ppt	-12.4 ppt

Source: Company data, CMBIGM

Figure 2: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	240,904	276,930	299,715	227,641	248,810	266,920	5.8%	11.3%	12.3%
Gross profit	37,299	43,076	46,211	34,851	37,821	40,845	7.0%	13.9%	13.1%
Operating profit	10,149	12,915	14,176	7,245	7,486	8,218	40.1%	72.5%	72.5%
Net profit	16,596	12,459	13,551	14,688	8,705	9,463	13.0%	43.1%	43.2%
Gross margin	15.5%	15.6%	15.4%	15.3%	15.2%	15.3%	0.2 ppt	0.4 ppt	0.1 ppt
Operating margin	4.2%	4.7%	4.7%	3.2%	3.0%	3.1%	1.0 ppt	1.7 ppt	1.7 ppt
Net margin	6.9%	4.5%	4.5%	6.5%	3.5%	3.5%	0.4 ppt	1.0 ppt	1.0 ppt

Source: CMBIGM estimates

Figure 3: CMBI estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	240,904	276,930	299,715	224,316	263,933	293,150	7.4%	4.9%	2.2%
Gross profit	37,299	43,076	46,211	35,195	42,285	48,566	6.0%	1.9%	-4.9%
Operating profit	10,149	12,915	14,176	7,115	8,966	11,513	42.6%	44.0%	23.1%
Net profit	16,596	12,459	13,551	12,365	10,224	12,422	34.2%	21.9%	9.1%
Gross margin	15.5%	15.6%	15.4%	15.7%	16.0%	16.6%	-0.2 ppt	-0.5 ppt	-1.1 ppt
Operating margin	4.2%	4.7%	4.7%	3.2%	3.4%	3.9%	1.0 ppt	1.3 ppt	0.8 ppt
Net margin	6.9%	4.5%	4.5%	5.5%	3.9%	4.2%	1.4 ppt	0.6 ppt	0.3 ppt

Source: Bloomberg, CMBIGM estimates

Figure 4: Geely's SOTP valuation table

	FY25E (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	79	-	0.7x	62%	40	3.98
Estimated net profit for Geely's all other businesses	11	12x	-	-	151	15.02
SOTP					191	19.00

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	240,904	276,930	299,715
Cost of goods sold	(84,199)	(127,069)	(151,789)	(203,605)	(233,854)	(253,505)
Gross profit	17,412	20,896	27,415	37,299	43,076	46,211
Operating expenses	(13,020)	(17,506)	(22,962)	(27,150)	(30,160)	(32,035)
Selling expense	(6,323)	(8,228)	(11,832)	(13,041)	(14,692)	(15,267)
Admin expense	(8,036)	(10,435)	(12,497)	(15,242)	(17,218)	(18,692)
Others	1,339	1,157	1,367	1,133	1,750	1,924
Operating profit	4,393	3,389	4,453	10,149	12,915	14,176
Other expense	(1,213)	(1,489)	(646)	(1,662)	(606)	(415)
Other gains/(losses)	0	1,750	0	7,470	0	0
Share of (losses)/profits of associates/JV	1,205	651	599	925	1,829	2,178
EBITDA	11,823	13,551	13,570	26,175	24,994	28,478
Depreciation	6,893	8,318	8,203	8,190	9,485	10,888
EBIT	4,930	5,233	5,367	17,984	15,509	17,590
Interest income	545	931	961	1,103	1,371	1,650
Interest expense	(265)	(551)	(417)	(364)	(406)	(400)
Net Interest income/(expense)	280	380	544	739	965	1,250
Foreign exchange gain/loss	125	(79)	(126)	(400)	0	0
Pre-tax profit	4,665	4,682	4,950	17,620	15,103	17,189
Income tax	(312)	(32)	(15)	(923)	(1,593)	(1,801)
After tax profit	4,353	4,650	4,935	16,698	13,510	15,388
Minority interest	494	611	373	(102)	(1,051)	(1,837)
Net profit	4,847	5,260	5,308	16,596	12,459	13,551
Gross dividends	1,788	1,916	2,033	3,285	4,485	4,878
BALANCE SHEET						
YE 31 Dec (RMB mn)						
Current assets	65,296	79,064	113,635	123,206	147,062	163,191
Cash & equivalents	28,014	33,341	35,746	47,223	60,540	69,606
Restricted cash	4	387	943	943	943	943
Account receivables	31,549	34,392	42,711	57,025	65,553	70,946
Inventories	5,522	10,822	15,422	17,850	19,862	21,531
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	106,029	114,544	122,119
PP&E	30,859	32,201	27,351	26,901	25,750	24,345
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	35,317	37,470	39,905
Intangibles	20,901	22,548	23,920	31,391	38,586	44,944
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	2,494	2,849	3,074
Total assets	134,341	157,826	192,598	229,235	261,606	285,310
Current liabilities	60,351	68,953	96,824	117,874	138,265	149,754
Short-term borrowings	1,907	0	0	0	0	0
Account payables	57,393	65,481	87,398	116,334	136,725	148,213
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	11,899	12,529	12,885
Long-term borrowings	0	2,758	2,840	2,340	2,340	2,340
Bond payables	1,901	6,000	2,600	3,500	3,500	3,500
Convertible bonds	0	0	0	0	0	0
Other non-current liabilities	1,869	3,919	5,182	6,058	6,689	7,044
Total liabilities	64,120	81,631	107,446	129,773	150,795	162,639
Share capital	183	184	184	185	187	188
Other reserves	68,423	74,947	80,325	91,063	101,389	111,440
Total shareholders equity	68,606	75,130	80,509	91,248	101,576	111,629
Minority interest	1,615	1,065	4,643	8,214	9,235	11,043
Total equity and liabilities	134,341	157,826	192,598	229,235	261,606	285,310

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	4,665	4,682	4,950	17,620	15,103	17,189
Depreciation & amortization	6,893	8,318	8,203	8,190	9,485	10,888
Tax paid	(1,197)	(2,082)	(2,307)	(923)	(1,593)	(1,801)
Change in working capital	5,161	5,672	11,238	12,589	10,127	4,557
Others	(174)	(571)	259	(7,273)	(1,974)	(2,787)
Net cash from operations	15,348	16,018	22,342	30,204	31,148	28,046
Investing						
Capital expenditure	(6,100)	(10,337)	(15,322)	(15,176)	(15,650)	(16,058)
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	1,767	2,167	2,514
Net cash from investing	(7,159)	(12,130)	(16,145)	(14,408)	(14,483)	(14,544)
Financing						
Dividend paid	(1,611)	(1,788)	(1,916)	(2,033)	(3,285)	(4,485)
Net borrowings	0	4,603	(6,306)	(500)	0	0
Proceeds from share issues	0	0	0	0	0	0
Others	2,527	(1,490)	5,458	(1,785)	(62)	50
Net cash from financing	916	1,325	(2,764)	(4,319)	(3,347)	(4,435)
Net change in cash						
Cash at the beginning of the year	18,977	28,014	33,341	35,746	47,223	60,540
Exchange difference	(68)	114	(1,029)	0	0	0
Cash at the end of the year	28,014	33,341	35,746	47,223	60,540	69,606
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	10.3%	45.6%	21.1%	34.4%	15.0%	8.2%
Gross profit	18.2%	20.0%	31.2%	36.1%	15.5%	7.3%
Operating profit	(11.6%)	(22.8%)	31.4%	127.9%	27.3%	9.8%
EBITDA	(2.3%)	14.6%	0.1%	92.9%	(4.5%)	13.9%
EBIT	(25.4%)	6.1%	2.6%	235.1%	(13.8%)	13.4%
Net profit	(12.4%)	8.5%	0.9%	212.6%	(24.9%)	8.8%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	17.1%	14.1%	15.3%	15.5%	15.6%	15.4%
Operating margin	4.3%	2.3%	2.5%	4.2%	4.7%	4.7%
EBITDA margin	11.6%	9.2%	7.6%	10.9%	9.0%	9.5%
Return on equity (ROE)	7.3%	7.3%	6.8%	19.3%	12.9%	12.7%
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)	(0.6)
Current ratio (x)	1.1	1.1	1.2	1.0	1.1	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	26.1	24.6	24.5	7.8	10.5	9.8
P/E (diluted)	26.3	24.9	24.6	7.9	10.6	9.8
P/B	1.8	1.7	1.6	1.4	1.3	1.2
P/CFPS	8.3	8.1	5.8	4.3	4.2	4.7
Div yield (%)	1.4	1.5	1.6	2.5	3.4	3.7

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

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