

GAC Group (2238 HK)

We expect 4Q22 NP to fall on equity income

Maintain BUY. We project GAC's 4Q22 net profit to decline 21% YoY to RMB 1.6bn as we expect its gross profit to fall 7% YoY and equity income from joint ventures (JVs) and associates to decline 13% YoY. We are still of the view that GAC's valuation is attractive and it is a defensive player in a volatile market.

- **Net profit in 4Q22 likely to fall YoY and QoQ.** We project GAC's 4Q22 net profit to fall 21% YoY to RMB 1.6bn amid 6% YoY decline in its total sales volume. We forecast GAC's gross margin in 4Q22 to be largely flat QoQ, as rising battery costs may offset the greater economies of scale from higher Aion sales. We expect GAC's 4Q22 equity income from JVs and associates to decline 13% YoY, the main reason for the decline of our projected 4Q22 net profit. Sales volume at GAC Honda fell 27% YoY in 4Q22. GAC Toyota raised incentives to dealers in 2H22 in order to achieve its 1mn-unit sales target in 2022.
- **We project sales volume of Aion to rise 18% YoY in FY23E amid high inventories.** Sales volume of Aion more than doubled in FY22 to 0.27mn units, becoming the fourth best-selling NEV brand in China. We calculate Aion increased its inventories at dealers by about 57,000 units in 2022, or equivalent to more than two-month of its retail sales volume. Therefore, we project wholesale volume of Aion to only rise 18% YoY to 0.32mn units in FY23E. We expect GAC's gross margin to widen by 2.1 ppts YoY in FY23E due to the higher sales volume of Aion and possible battery price drop.
- **Valuation/Key risks.** We project GAC's net profit in FY23E to decline 5% YoY to RMB 9.2bn (1% lower than our prior forecast), mainly due to lower equity income from JVs and associates.

We use sum-of-the-parts (SOTP) valuation to factor in Aion's planned spin-off. We value Aion HK\$ 3.8 per share, based on 1.0x (unchanged) FY23E P/S. We value HK\$ 4.2 per share for JVs and associates based on 3.0x our FY23E P/E, which is equivalent to a very 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 target price of HK\$ 8.00. 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)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	63,157	75,676	111,911	113,076	113,722
YoY growth (%)	5.8	19.8	47.9	1.0	0.6
Net income (RMB mn)	5,964	7,511	9,691	9,193	10,491
EPS (RMB)	0.58	0.73	0.93	0.88	1.00
YoY growth (%)	(9.9)	25.9	29.0	(5.1)	14.1
P/E (x)	8.4	6.3	5.4	5.7	5.0
P/B (x)	0.6	0.5	0.5	0.5	0.5
Yield (%)	2.7	3.6	4.0	3.8	4.3
ROE (%)	7.2	8.6	10.2	8.9	9.4
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$ 8.00
(Previous TP	HK\$ 8.00)
Up/Downside	+38.2%
Current Price	HK\$ 5.79

China Auto Sector

SHI Ji, CFA

(852) 3761 8728
shiji@cmbi.com.hk

DOU Wenjing, CFA

(852) 6939 4751
douwenjing@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	59,570
Avg 3 mths t/o (HK\$ mn)	106
52w High/Low (HK\$)	8.16/4.73
Total Issued Shares (mn)	10,464
Source: Bloomberg	

Shareholding Structure

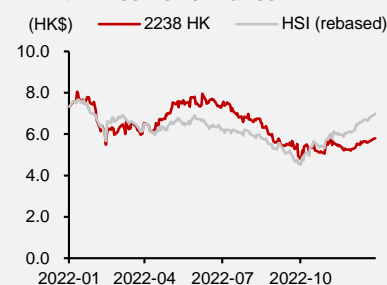
Guangzhou Automobile	53.1%
Industry	
Others	46.9%
Source: HKEx	

Share Performance

	Absolute	Relative
1-mth	14.0%	10.3%
3-mth	47.1%	4.9%
6-mth	9.8%	-21.1%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PricewaterhouseCoopers

Related Reports

["GAC Group – 3Q22 earnings miss on impairment, Toyota" – 28 Oct 2022](#)

Figure 1: Quarterly results

RMB mn	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22E	YoY	QoQ
Sales volume (units)	496,560	529,945	467,221	650,661	608,167	541,759	675,024	608,761	-6.4%	-9.8%
Revenue	16,024	18,548	20,941	20,163	23,268	25,421	31,678	31,544	56.4%	-0.4%
Gross profit	600	1,030	1,327	1,631	1,025	1,160	1,470	1,526	-6.5%	3.8%
R&D expenses	(260)	(263)	(237)	(228)	(241)	(319)	(388)	(289)	27.0%	-25.4%
SG&A expenses	(1,518)	(2,154)	(2,185)	(2,417)	(2,110)	(2,287)	(2,324)	(3,512)	45.3%	51.1%
Investment Income	3,443	3,060	1,781	3,530	4,227	4,271	3,770	3,006	-14.8%	-20.3%
Operating profit	2,279	1,937	978	1,951	2,854	2,883	2,102	1,821	-6.7%	-13.4%
Net profit	2,366	1,971	947	2,051	3,009	2,742	2,312	1,629	-20.6%	-29.5%
Gross margin	3.7%	5.6%	6.3%	8.1%	4.4%	4.6%	4.6%	4.8%	-3.3 ppt	0.2 ppt
Operating margin	14.2%	10.4%	4.7%	9.7%	12.3%	11.3%	6.6%	5.8%	-3.9 ppt	-0.9 ppt
Net margin	14.8%	10.6%	4.5%	10.2%	12.9%	10.8%	7.3%	5.2%	-5.0 ppt	-2.1 ppt

Source: Company data, CMBIGM

Figure 2: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	111,911	113,076	113,722	113,304	124,632	127,207	-1.2%	-9.3%	-10.6%
Gross profit	5,180	7,526	9,696	5,241	8,135	10,844	-1.2%	-7.5%	-10.6%
Operating profit	(5,286)	(3,981)	(1,855)	(5,627)	(4,318)	(1,648)	N/A	N/A	N/A
Net profit	9,691	9,193	10,491	9,573	9,085	12,709	1.2%	1.2%	-17.5%
Gross margin	4.6%	6.7%	8.5%	4.6%	6.5%	8.5%	0.0 ppt	0.1 ppt	0.0 ppt
Operating margin	-4.7%	-3.5%	-1.6%	-5.0%	-3.5%	-1.3%	0.2 ppt	-0.1 ppt	-0.3 ppt
Net margin	8.7%	8.1%	9.2%	8.4%	7.3%	10.0%	0.2 ppt	0.8 ppt	-0.8 ppt

Source: CMBIGM estimates

Figure 3: CMBI estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	111,911	113,076	113,722	104,704	123,985	146,098	6.9%	-8.8%	-22.2%
Gross profit	5,180	7,526	9,696	6,196	8,533	11,651	-16.4%	-11.8%	-16.8%
Operating profit	(5,286)	(3,981)	(1,855)	(4,808)	(4,491)	(1,603)	N/A	N/A	N/A
Net profit	9,691	9,193	10,491	9,999	11,410	13,039	-3.1%	-19.4%	-19.5%
Gross margin	4.6%	6.7%	8.5%	5.9%	6.9%	8.0%	-1.3 ppt	-0.2 ppt	0.6 ppt
Operating margin	-4.7%	-3.5%	-1.6%	-4.6%	-3.6%	-1.1%	-0.1 ppt	0.1 ppt	-0.5 ppt
Net margin	8.7%	8.1%	9.2%	9.5%	9.2%	8.9%	-0.9 ppt	-1.1 ppt	0.3 ppt

Source: Bloomberg, CMBIGM estimates

Figure 4: SOTP valuation

GAC (2238 HK)	FY23E (RMB mn)	Target P/E Multiple	Target P/S Multiple	Est. Shareholding	Target Market Cap (RMB mn)	Target Price (HK\$)
Estimated NEV Revenue	46,075	-	1.0x	75%	34,556	3.8
Estimated Share of Profits of Joint Ventures & Associates	13,275	3.0x	-	-	39,825	4.2
SOTP					74,381	8.0

Source: CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	63,157	75,676	111,911	113,076	113,722
Cost of sales	(60,861)	(71,777)	(106,730)	(105,550)	(104,026)
Gross profit	2,296	3,899	5,180	7,526	9,696
Selling exp.	(3,641)	(4,340)	(5,346)	(6,140)	(6,179)
Admin exp.	(3,850)	(4,556)	(6,122)	(6,419)	(6,424)
Other gains	1,629	1,371	1,002	1,052	1,052
Operating profit	(3,567)	(3,626)	(5,286)	(3,981)	(1,855)
Net finance costs	(312)	(367)	(154)	(83)	(54)
Profit share of asso.&JVs	9,571	11,404	15,100	13,275	12,408
Pre-tax profit	5,692	7,412	9,660	9,211	10,500
Tax	356	154	163	81	38
Minority interests	(84)	(55)	(132)	(100)	(47)
Net profit	5,964	7,511	9,691	9,193	10,491

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Profit before taxation	5,692	7,412	9,660	9,211	10,500
Depreciation/amortization	5,110	5,719	7,028	7,705	8,639
Change in working capital	(3,973)	(8,134)	4,423	(3,195)	(3,454)
Others	(10,501)	(11,488)	(13,566)	(12,230)	(11,377)
Net cash from operating	(3,671)	(6,491)	7,545	1,491	4,307
Capex	(6,586)	(6,243)	(10,700)	(9,100)	(9,200)
Others	3,647	13,478	13,698	12,323	10,818
Net cash from investing	(2,938)	7,235	2,998	3,223	1,618
Net borrowings	1,105	2,657	(5,37)	1,725	(652)
Dividend paid	(1,936)	(2,135)	(2,525)	(3,182)	(2,992)
Others	(347)	255	(228)	(234)	(226)
Net cash from financing	(1,178)	777	(8,124)	(1,691)	(3,870)
Net change in cash	(7,787)	1,520	2,419	3,023	2,056
Cash at beginning of the year	23,605	15,791	17,235	19,654	22,676
Exchange difference	(27)	(76)	-	-	-
Cash at the end of the year	15,791	17,235	19,654	22,676	24,732

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Current assets	56,643	61,192	78,878	82,774	85,814
Cash & equivalents	15,791	17,235	19,654	22,676	24,732
Account receivables	19,616	25,110	36,793	37,795	38,946
Inventories	6,622	8,111	11,696	11,567	11,400
Other current assets	14,614	10,736	10,736	10,736	10,736
Non-current assets	86,218	93,059	98,424	100,556	102,352
PP&E	20,073	19,476	20,742	19,644	18,392
Intangibles	12,259	13,581	15,301	17,342	18,614
Deferred income tax	2,124	2,834	2,834	2,834	2,834
Other non-current assets	51,762	57,168	59,547	60,737	62,513
Total assets	142,861	154,251	177,302	183,330	188,167
Current liabilities	42,543	49,133	63,298	63,178	59,746
Bank borrowings	6,504	9,889	3,965	5,916	4,700
Account payables	35,464	38,490	58,482	56,389	54,151
Tax payable	103	202	202	202	202
Other current liabilities	472	551	649	670	693
Non-current liabilities	13,604	12,469	11,415	10,450	10,508
Bank borrowings	8,473	7,527	5,927	4,927	4,927
Government Grants	2,556	2,196	2,066	1,956	1,863
Other non-current liabilities	2,575	2,747	3,422	3,567	3,718
Total liabilities	56,147	61,602	74,713	73,627	70,254
Share capital	10,350	10,371	10,371	10,452	10,514
Reserves	74,025	79,943	89,870	96,892	105,036
Non-controlling interests	2,339	2,335	2,349	2,359	2,363
Shareholders' equity	84,375	90,313	100,240	107,345	115,549
Total equity and liabilities	142,861	154,251	177,302	183,330	188,167

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
Automobile	60.1	65.0	72.0	74.8	75.2
Parts and services	35.9	32.1	25.9	23.1	22.7
Finance and others	4.0	2.9	2.1	2.1	2.2
Growth (%)					
Revenue	5.8	19.8	47.9	1.0	0.6
Gross profit	(9.0)	69.8	32.9	45.3	28.8
Operating profit	29.1	1.6	45.8	(24.7)	(53.4)
Net profit	(9.9)	25.9	29.0	(5.1)	14.1
Profit & loss ratio (%)					
Gross margin	3.6	5.2	4.6	6.7	8.5
Operating margin	(5.6)	(4.8)	(4.7)	(3.5)	(1.6)
Net profit margin	9.4	9.9	8.7	8.1	9.2
Balance sheet ratio					
Net cash/total equity (x)	0.1	0.1	0.1	0.2	0.2
Current ratio (x)	1.3	1.2	1.2	1.3	1.4
Receivable turnover days	113	121	120	122	125
Inventory turnover days	40	41	40	40	40
Payable turnover days	213	196	200	195	190
Profitability (%)					
ROE	7.2	8.6	10.2	8.9	9.4
ROA	4.3	5.1	5.8	5.1	5.6
Per share data (RMB)					
EPS	0.58	0.73	0.93	0.88	1.00
DPS	0.18	0.22	0.29	0.27	0.31

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CMB International Global Markets Limited

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

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