

Geely Automobile (175 HK)

Expect 2H23E net profit to double HoH

We project Geely's 2H23E net profit to double HoH to RMB3.2bn amid all-time-high half-year sales volume and declining raw-material prices, probably higher than some investors' expectation. We also project Geely's FY24E sales volume to rise 7% YoY to 1.8mn units, slightly lower than its target of 1.9mn units. We estimate Geely's net profit to rise 32% YoY to RMB6.2bn in FY24E, taking different factors into consideration as elaborated in details below. We are of the view that Geely's current valuation is attractive and new models including the Zeekr 007, Lynk & Co 08 and more Galaxy models could be positive catalysts for its share price.

- Geely brand's gross margin could be more resilient than expected.** We project the average selling price (ASP) for the Geely brand (including Galaxy and Geometry) to rise 1% HoH amid a better product mix and surging exports. We assume ASP for most models to drop HoH despite Geely's relatively stable discounts compared with its peers. We estimate the Geely brand's gross margin to widen by 0.8ppt HoH to 13.9% in 2H23E, thanks to greater economies of scale and raw-material price drops. We also project the Geely brand's gross margin in FY24E to be 14% amid the ongoing price war.
- We expect Zeekr's net loss to be around RMB2bn in FY23-24E.** Despite different accounting standards, Zeekr's US IPO prospectus with its financials in the first nine months of 2023 is still a good reference for Zeekr's 2H23E forecast, in our view. We expect Zeekr's ASP to decline 16% HoH on rising discounts and vehicle gross margin to be 15.8% in 2H23E. Accordingly, we estimate Zeekr's net loss (100%) to be RMB2.2bn under the HKFRS in FY23E, implying a net loss of RMB1.2bn in 2H23E. We project Zeekr's net loss to narrow slightly to RMB2.0bn in FY24E with higher sales volume but lower gross margin and heavier amortization burden from R&D investments.
- Proton could lift equity income.** Geely's major joint ventures (JVs) and associates now include Lynk & Co (50%), Renault Korea (34.02%), Proton (49.9%), Chongqing Livan (45%) and Genius Auto Finance (80%). We project Geely's equity income from JVs and associates in 2H23E to increase by about RMB300mn HoH to RMB452mn, mainly due to loss cuts at Lynk & Co and half-year profit contribution from Proton (which became an associate from 28 Apr 2023). We also expect equity income in FY24E to continue rising on Proton and Lynk & Co.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	101,611	147,965	177,077	204,275	219,290
YoY growth (%)	10.3	45.6	19.7	15.4	7.4
Net income (RMB mn)	4,847	5,260	4,738	6,238	6,976
EPS (RMB)	0.48	0.50	0.45	0.59	0.66
YoY growth (%)	(12.4)	8.5	(9.9)	31.7	11.8
P/E (x)	13.5	13.8	16.2	12.3	11.0
P/B (x)	1.0	0.9	0.9	0.9	0.8
Yield (%)	0.9	1.6	1.3	1.7	1.8
ROE (%)	7.3	7.3	6.2	7.6	8.0
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **HK\$ 14.00**
 (Previous TP **HK\$ 14.00**)
 Up/Downside **+75.2%**
 Current Price **HK\$ 7.99**

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Stock Data

Mkt Cap (HK\$ mn)	82,017
Avg 3 mths t/o (HK\$ mn)	325
52w High/Low (HK\$)	13.50/7.53
Total Issued Shares (mn)	10,063
Source: Bloomberg	

Shareholding Structure

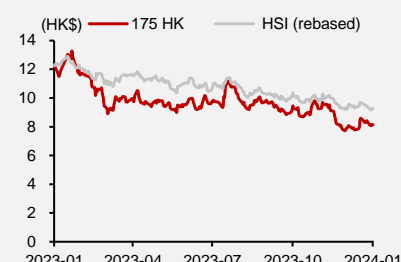
Li Shufu	43.2%
Others	56.8%
Source: HKEx	

Share Performance

	Absolute	Relative
1-mth	3.2%	2.7%
3-mth	-12.6%	-4.1%
6-mth	-16.6%	-0.6%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: GrantThornton

Related Report

["Geely Automobile – Could be undervalued compared with peers" – 18 Dec 2023, P255](#)

- **R&D amortization could be a drag in FY24E.** Despite 15% YoY growth in FY24E revenue on our estimates, we expect Geely's administrative expenses to rise 14% YoY in FY24E, largely due to higher amortization cost from heavy R&D at Zeekr. Share-based payment is another factor that could be easily overlooked. In Nov 2023, Geely granted a new round of share options (578mn share options with an exercise price of HK\$9.56). We estimate Geely's share-based payment to be around RMB1.0-1.1bn in both FY23E and FY24E.
- **Earnings/Valuation.** We revise up Geely's FY23-24E net profit by 14% and 4%, respectively. We now value Zeekr at 1.3x (previously 1.5x) FY24E core revenue (excluding Viridi's battery pack sales and R&D services), which implies HK\$70bn for Zeekr's valuation (100%). We think such valuation is justified, as it is 30% lower than its previous round of financing. We value Geely's all other businesses excluding Zeekr at 13x (unchanged) FY24E P/E (details in Figure 5). We maintain our BUY rating and target price of HK\$14.00. Key risks to our rating and target price include lower sales volume, especially NEVs, than we expect and a sector de-rating.

Figure 1: Earnings forecast breakdown

	FY2021	FY2022	FY2023E	FY2024E
Total Sales Volume (Units)	1,328,029	1,432,988	1,686,516	1,800,000
Geely	1,046,188	975,391	1,118,234	1,180,000
Geometry	55,318	149,389	191,344	130,000
Zeekr	6,007	71,941	118,685	210,000
Lynk & Co (JV)	220,516	180,127	220,250	240,000
Livan (Asso)	-	56,140	38,003	40,000
ASP (RMB)				
Geely + Geometry	78,022	89,807	84,879	87,500
Zeekr	292,371	302,603	286,649	236,429
Lynk & Co (100%)	136,540	161,600	154,029	158,021
Gross Margin Assumption (%)	17.1%	14.1%	14.8%	14.5%
Auto Parts (excl. Viridi)	25.0%	25.0%	25.0%	25.0%
Viridi's Battery Pack Sales	5.0%	5.0%	5.0%	5.0%
R&D Support Services (incl. Zeekr)	12.0%	12.0%	12.0%	12.0%
Licensing of IP	100.0%	100.0%	100.0%	100.0%
Automobile - Zeekr	6.1%	8.4%	15.5%	14.1%
Automobile - Geely and Geometry	15.6%	14.6%	13.6%	14.0%
Our Est. Net Profit Breakdown (RMB mn)	4,847	5,260	4,738	6,238
Geely + Geometry (excl. Auto Parts)	1,520	2,751	1,670	1,702
Auto Parts (excl. Viridi) - assume 12% NPM	1,056	1,054	1,200	1,320
R&D Support (assume 8% NPM) and IP Licensing	1,536	2,195	2,460	2,720
Zeekr (incl. Viridi)	(469)	(1,390)	(1,190)	(1,075)
JVs and Associates	1,205	651	598	1,570
Lynk & Co (JV)	350	4	(448)	115
Genius AFC (JV)	848	977	1,033	1,151
Renault Korea (Asso)	-	10	159	238
Proton (Asso)	-	-	131	238
Livan (Asso)	-	8	(239)	(189)
Others	7	(347)	(38)	18
Our Est. Net Profit per Vehicle (RMB)				
Geely + Geometry (excl. Auto Parts)	1,433	2,286	1,361	1,570
Zeekr (incl. Viridi)	(78,099)	(19,321)	(10,025)	(5,117)
Lynk & Co (100%)	3,177	40	(4,064)	959

Source: Company data, CMBIGM estimates

Figure 2: Interim results

RMB mn	1H21	2H21	1H22	2H22	1H23	2H23E	YoY	HoH
Sales volume (units)	630,237	697,792	613,842	819,146	694,045	992,471	21.2%	43.0%
ASP (RMB)	75,258	80,514	87,673	91,517	84,331	85,280	-6.8%	1.1%
Total revenue	45,032	56,579	58,184	89,781	73,182	103,895	15.7%	42.0%
Gross profit	7,759	9,653	8,476	12,420	10,540	15,690	26.3%	48.9%
Selling exp.	(2,554)	(3,769)	(3,304)	(4,924)	(4,768)	(6,365)	29.3%	33.5%
Admin exp.	(3,251)	(4,785)	(4,685)	(5,750)	(4,808)	(6,944)	20.7%	44.4%
Operating profit	2,754	1,638	1,384	2,006	1,605	2,911	45.1%	81.3%
Net profit	2,381	2,466	1,552	3,708	1,571	3,167	-14.6%	101.6%
Gross margin	17.2%	17.1%	14.6%	13.8%	14.4%	15.1%	1.3 ppt	0.7 ppt
Operating margin	6.1%	2.9%	2.4%	2.2%	2.2%	2.8%	0.6 ppt	0.6 ppt
Net margin	5.3%	4.4%	2.7%	4.1%	2.1%	3.0%	-1.1 ppt	0.9 ppt

Source: Company data, CMBIGM estimates

Figure 3: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	177,077	204,275	219,290	178,525	206,290	225,440	-0.8%	-1.0%	-2.7%
Gross profit	26,230	29,715	32,416	24,962	27,654	31,663	5.1%	7.5%	2.4%
Operating profit	4,516	5,251	5,429	3,751	4,118	5,713	20.4%	27.5%	-5.0%
Net profit	4,738	6,238	6,976	4,142	6,013	7,629	14.4%	3.7%	-8.6%
Gross margin	14.8%	14.5%	14.8%	14.0%	13.4%	14.0%	0.8 ppt	1.1 ppt	0.7 ppt
Operating margin	2.6%	2.6%	2.5%	2.1%	2.0%	2.5%	0.4 ppt	0.6 ppt	-0.1 ppt
Net margin	2.7%	3.1%	3.2%	2.3%	2.9%	3.4%	0.4 ppt	0.1 ppt	-0.2 ppt

Source: Company data, CMBIGM estimates

Figure 4: CMBI estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	177,077	204,275	219,290	174,377	209,651	238,849	1.5%	-2.6%	-8.2%
Gross profit	26,230	29,715	32,416	25,388	31,653	37,057	3.3%	-6.1%	-12.5%
Operating profit	4,516	5,251	5,429	3,747	5,705	7,827	20.5%	-8.0%	-30.6%
Net profit	4,738	6,238	6,976	4,849	6,858	8,924	-2.3%	-9.0%	-21.8%
Gross margin	14.8%	14.5%	14.8%	14.6%	15.1%	15.5%	0.3 ppt	-0.6 ppt	-0.7 ppt
Operating margin	2.6%	2.6%	2.5%	2.1%	2.7%	3.3%	0.4 ppt	-0.2 ppt	-0.8 ppt
Net margin	2.7%	3.1%	3.2%	2.8%	3.3%	3.7%	-0.1 ppt	-0.2 ppt	-0.6 ppt

Source: Bloomberg, CMBIGM estimates

Figure 5: 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	50	-	1.3x	54%	38	3.80
Estimated net profit for Geely's all other businesses	7	13.0x	-	-	105	10.20
SOTP					143	14.00

Source: CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	101,611	147,965	177,077	204,275	219,290
Cost of sales	(84,199)	(127,069)	(150,847)	(174,560)	(186,874)
Gross profit	17,412	20,896	26,230	29,715	32,416
Selling exp.	(6,323)	(8,228)	(11,133)	(12,246)	(12,851)
Admin exp.	(8,036)	(10,435)	(11,751)	(13,418)	(15,235)
Other income	1,339	1,157	1,170	1,200	1,100
Operating profit	4,393	3,389	4,516	5,251	5,429
Share-based payments	(1,213)	(1,489)	(1,035)	(1,125)	(450)
Net finance costs	280	380	340	374	444
Profit share of asso.&JVs	1,205	651	598	1,570	1,471
Other non-oper exp.	0	1,750	20	0	0
Pre-tax profit	4,665	4,682	4,439	6,071	6,894
Tax	(312)	(32)	(576)	(675)	(813)
Minority interests	494	611	875	842	895
Net profit	4,847	5,260	4,738	6,238	6,976

Cash flow summary

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Profit before taxation	4,665	4,682	4,439	6,071	6,894
Depreciation/amortization	6,893	8,318	8,902	10,117	11,344
Change in working capital	3,964	3,590	2,715	4,165	(997)
Others	(174)	(571)	329	(571)	(1,204)
Net cash from operating	15,348	16,018	16,384	19,781	16,036
Capex	(6,100)	(10,337)	(12,933)	(12,755)	(11,699)
Others	(1,059)	(1,793)	61	1,056	1,067
Net cash from investing	(7,159)	(12,130)	(12,872)	(11,699)	(10,632)
Share issuance	31	9	1	401	400
Dividend paid	(1,677)	(1,833)	(1,907)	(1,688)	(2,213)
Others	2,562	3,149	(2,260)	1,273	(757)
Net cash from financing	916	1,325	(4,166)	(14)	(2,570)
Net change in cash	9,105	5,213	(654)	8,068	2,835
Cash at beginning of the year	18,977	28,014	33,341	32,688	40,755
Exchange difference	(68)	114	0	0	0
Cash at the end of the year	28,014	33,341	32,688	40,755	43,590

Balance sheet

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Current assets	65,296	79,064	86,707	102,077	108,835
Cash & equivalents	28,014	33,341	32,688	40,755	43,590
Account receivables	31,549	34,392	42,353	48,858	52,449
Inventories	5,522	10,822	11,159	11,956	12,288
Other current assets	211	508	508	508	508
Non-current assets	69,046	78,762	83,853	87,923	89,596
PP&E	30,859	32,201	32,292	31,364	29,356
Intangibles	20,959	22,609	26,142	29,383	31,399
Deferred income tax	2,435	4,573	4,573	4,573	4,573
Other non-current assets	14,793	19,379	20,845	22,602	24,268
Total assets	134,341	157,826	170,560	190,000	198,431
Current liabilities	60,351	68,953	78,363	90,460	94,233
Bank borrowings	1,907	-	-	-	-
Account payables	57,393	65,481	76,953	89,050	92,822
Tax payable	853	773	773	773	773
Other current liabilities	198	2,699	637	637	637
Non-current liabilities	3,770	12,677	13,146	13,393	13,470
Bank borrowings	-	2,758	3,258	3,258	3,258
Long-term payables	2,863	7,602	7,570	7,817	7,894
Other non-current liabilities	907	2,317	2,317	2,317	2,317
Total liabilities	64,120	81,631	91,509	103,852	107,702
Share capital	183	184	184	186	186
Reserves	65,010	71,534	75,303	81,270	86,776
Non-controlling interests	1,615	1,065	150	1,279	354
Shareholders' equity	68,606	75,130	78,901	84,869	90,375
Total equity and liabilities	134,341	157,826	170,560	190,000	198,431

Key ratios

YE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Sales mix (%)					
Automobile	84.6	68.3	62.8	56.1	55.2
Auto parts	8.7	5.9	5.6	5.4	5.5
IP licensing & R&D support	6.8	25.8	31.6	38.5	39.3
Growth (%)					
Revenue	10.3	45.6	19.7	15.4	7.4
Gross profit	18.2	20.0	25.5	13.3	9.1
Operating profit	(11.6)	(22.8)	33.2	16.3	3.4
Net profit	(12.4)	8.5	(9.9)	31.7	11.8
Profit & loss ratio (%)					
Gross margin	17.1	14.1	14.8	14.5	14.8
Operating margin	4.3	2.3	2.6	2.6	2.5
Net profit margin	4.8	3.6	2.7	3.1	3.2
Balance sheet ratio					
Net cash/total equity (x)	0.3	0.3	0.3	0.4	0.4
Current ratio (x)	1.1	1.1	1.1	1.1	1.2
Receivable turnover days	117	89	90	90	90
Inventory turnover days	24	31	27	25	24
Payable turnover days	254	193	190	190	185
Profitability (%)					
ROE	7.3	7.3	6.2	7.6	8.0
ROA	4.0	3.6	2.9	3.5	3.6
Per share data (RMB)					
EPS	0.48	0.50	0.45	0.59	0.66
DPS	0.18	0.19	0.16	0.22	0.24

Source: Company data, CMBIGM estimates

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