

GAC Group (2238 HK/601238 CH)

We expect 2H25 earnings to improve after 1Q miss

Maintain BUY. Although the market had a low expectation for GAC's 1Q25 earnings amid a high inventory level at the end of FY24, we are of the view that its net loss of RMB732mn was still a miss, especially for Aion. We expect its earnings to improve from 2H25E, as the automaker may become more aggressive in grabbing market share, although uncertainties still linger. GAC's net cash of RMB23.5bn at the end of FY24 is equivalent to 85% of its H-share market cap now.

■ **1Q25 earnings miss.** Although GAC's 1Q25 revenue was stronger than our prior forecast, its gross margin of -1.1% was about 4ppts lower than our projection. Although equity income from joint ventures (JVs) and associates of about RMB1.1bn in 1Q25 was in line with our forecast, selling expenses were higher and government grants were lower than our estimates. We estimate that homegrown brands' net loss in 1Q25 was about RMB1bn wider than our forecast.

■ **Earnings may start to improve from 2H25E, although volatility is likely to continue.** We expect the sales pattern at GAC in FY25E to be similar to FY24 with sales volume rising sequentially in 2H25E, which could also lead to higher gross margin. We also believe that the cost reduction efforts starting from the end of last year may become more apparent in 2H25E. Therefore, we still expect GAC's FY25E net profit to be in the positive territory with assumptions of significantly reduced impairment loss and SG&A expense cuts. On the other hand, we cut our FY25E net profit forecast by 50% to RMB340mn, mainly due to Aion. We have also cut Aion's FY25E sales volume forecast by 4% to 0.38mn units.

■ **Valuation/Key risks.** We maintain our BUY rating and target price of HK\$3.60, based on the sum-of-the-parts valuation. We value all GAC's consolidated businesses at HK\$2.95 per share, based on 0.3x (unchanged) our FY25E P/S. We value its JVs and associates at HK\$0.65 per share, based on 3x (unchanged) our FY25E P/E. Our A-share target price of RMB10.00 is based on GAC's current A/H premium of about 200% (vs. the average A/H premium of 200% in the past 12 months). Key risks to our rating and target prices include lower sales volume and margins than we expect, as well as a sector de-rating.

Earnings Summary - 2238 HK

(YE 31 Dec)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (RMB mn)	129,706	107,784	101,786	104,383	104,483
YoY growth (%)	17.6	(16.9)	(5.6)	2.6	0.1
Net profit (RMB mn)	4,428.9	823.6	340.4	201.0	735.6
YoY growth (%)	(45.1)	(81.4)	(58.7)	(40.9)	266.0
EPS (Reported) (RMB cents)	42.47	7.92	3.24	1.92	7.01
P/E (x)	6.4	34.4	84.1	142.0	38.9
P/B (x)	0.2	0.2	0.3	0.2	0.2
Yield (%)	5.5	1.8	0.8	0.4	0.8
ROE (%)	3.9	0.7	0.3	0.2	0.6
Net gearing (%)	(24.5)	(20.6)	(21.0)	(21.3)	(20.8)

Source: Company data, Bloomberg, CMBIGM estimates

	2238 HK	601238 CH
	BUY	BUY
	Maintain	Maintain

TP	HK\$3.60	RMB10.00
Prior TP	HK\$3.60	RMB10.00
Up/Downside	24.1%	24.4%
Current Price	HK\$2.9	RMB8.0

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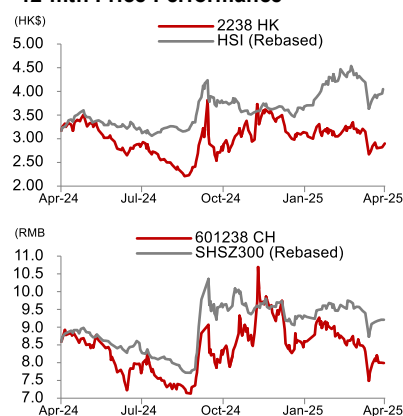
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12-mth Price Performance



Source: FactSet

Stock Performance

	2238 HK		601238 CH	
	Abs.	Rel.	Abs.	Rel.
1-mth	-7.3%	-1.6%	-4.4%	-3.8%
3-mth	-7.1%	-15.1%	-6.5%	-5.9%
6-mth	0.7%	-5.7%	-3.8%	5.2%

Source: FactSet

Stock Data

(LC)	2238 HK	601238 CH
Mkt Cap (mn)	29571.49	81984.41
Avg 3 mths t/o (mn)	86.38	232.66
52w High	3.81	10.69
52w Low	2.21	7.13
Issued Shares (mn)	10197.07	10197.07

Source: FactSet

Figure 1: Quarterly results

RMB mn	1Q24	2Q24	3Q24	4Q24	1Q25	YoY	QoQ
Sales volume (units)	409,698	453,340	472,012	668,008	371,087	-9.4%	-44.4%
Revenue	21,566	24,689	28,486	33,043	19,879	-7.8%	-39.8%
Gross profit	987	1,194	1,034	937	(216)	N/A	N/A
R&D expenses	(375)	(305)	(353)	(778)	(377)	0.5%	-51.5%
SG&A expenses	(2,157)	(2,734)	(2,787)	(2,135)	(2,370)	9.9%	11.0%
Investment Income	1,844	1,414	385	3,675	1,174	-36.3%	-68.1%
Operating profit	961	179	(2,134)	175	(1,276)	N/A	N/A
Net profit	1,220	296	(1,396)	704	(732)	N/A	N/A
Gross margin	4.6%	4.8%	3.6%	2.8%	-1.1%	-5.7 ppts	-3.9 ppts
Operating margin	4.5%	0.7%	-7.5%	0.5%	-6.4%	-10.9 ppts	-6.9 ppts
Net margin	5.7%	1.2%	-4.9%	2.1%	-3.7%	-9.3 ppts	-5.8 ppts

Source: Company data, CMBIGM

Figure 2: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	101,786	104,383	104,483	108,125	109,561	N/A	-5.9%	-4.7%	N/A
Gross profit	4,948	5,981	6,815	5,453	6,587	N/A	-9.3%	-9.2%	N/A
Operating profit	(859)	(637)	(71)	(487)	(283)	N/A	N/A	N/A	N/A
Net profit	340	201	736	677	481	N/A	-49.7%	-58.2%	N/A
Gross margin	4.9%	5.7%	6.5%	5.0%	6.0%	N/A	-0.2 ppts	-0.3 ppts	N/A
Operating margin	-0.8%	-0.6%	-0.1%	-0.5%	-0.3%	N/A	-0.4 ppts	-0.4 ppts	N/A
Net margin	0.3%	0.2%	0.7%	0.6%	0.4%	N/A	-0.3 ppts	-0.2 ppts	N/A

Source: CMBIGM estimates

Figure 3: CMBI estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	101,786	104,383	104,483	122,762	132,244	140,177	-17.1%	-21.1%	-25.5%
Gross profit	4,948	5,981	6,815	7,455	9,044	10,396	-33.6%	-33.9%	-34.4%
Operating profit	(859)	(637)	(71)	(3,308)	(3,145)	(3,371)	N/A	N/A	N/A
Net profit	340	201	736	1,995	1,850	2,463	-82.9%	-89.1%	-70.1%
Gross margin	4.9%	5.7%	6.5%	6.1%	6.8%	7.4%	-1.2 ppts	-1.1 ppts	-0.9 ppts
Operating margin	-0.8%	-0.6%	-0.1%	-2.7%	-2.4%	-2.4%	1.9 ppts	1.8 ppts	2.3 ppts
Net margin	0.3%	0.2%	0.7%	1.6%	1.4%	1.8%	-1.3 ppts	-1.2 ppts	-1.1 ppts

Source: CMBIGM estimates

Figure 4: SOTP valuation

GAC (2238 HK)	FY25E (RMB bn)	Target P/E Multiple	Target P/S Multiple	Target Market Cap (HK\$ bn)	Target Price (HK\$)
Estimated revenue of Homegrown	102		0.3x	30	2.95
Estimated share of profits of joint ventures & associates	2.5	3x		7	0.65
SOTP				37	3.60

Source: CMBIGM estimates

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Revenue	110,272	129,706	107,784	101,786	104,383	104,483
Cost of goods sold	(102,755)	(121,097)	(100,742)	(94,293)	(95,897)	(95,161)
Others	(2,235)	(2,942)	(2,890)	(2,545)	(2,505)	(2,508)
Gross profit	5,282	5,667	4,152	4,948	5,981	6,815
Operating expenses	(8,367)	(9,547)	(8,899)	(8,726)	(8,832)	(9,139)
Selling expense	(3,923)	(5,048)	(5,417)	(5,171)	(5,172)	(5,075)
Admin expense	(3,796)	(4,301)	(4,397)	(4,003)	(4,166)	(4,370)
R&D expense	(1,707)	(1,734)	(1,812)	(1,636)	(1,718)	(1,855)
Others	1,058	1,535	2,726	2,083	2,225	2,162
Operating profit	(3,085)	(3,881)	(4,747)	(3,779)	(2,850)	(2,323)
Gain/loss on financial assets at FVTPL	(319)	(41)	(405)	69	68	67
Investment gain/loss	14,317	8,660	7,319	3,039	2,729	2,837
Other gains/(losses)	(3,131)	(772)	(2,370)	463	(112)	(195)
EBITDA	14,542	10,764	8,871	9,529	10,242	11,718
Depreciation	2,553	2,660	3,351	3,571	3,802	4,083
Depreciation of ROU assets	325	521	640	680	806	932
Goodwill amortisation	3,719	3,269	4,720	5,089	5,371	5,865
Other amortisation	163	349	364	397	428	452
EBIT	7,782	3,966	(204)	(208)	(165)	386
Interest income	481	773	569	517	412	406
Interest expense	(328)	(441)	(523)	(430)	(252)	(237)
Pre-tax profit	7,454	3,525	(727)	(639)	(417)	149
Income tax	536	215	233	220	206	174
After tax profit	7,990	3,740	(494)	(418)	(211)	323
Minority interest	74	689	1,318	759	412	412
Net profit	8,064	4,429	824	340	201	736
Gross dividends	2,516	1,573	514	238	101	221

BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Current assets	91,603	101,111	112,026	80,244	78,831	78,335
Cash & equivalents	39,524	48,895	51,624	34,492	34,192	33,466
Account receivables	8,192	5,756	3,433	5,298	6,006	6,011
Inventories	12,362	16,720	15,688	12,400	11,823	11,732
Prepayment	1,239	2,108	1,507	1,550	1,576	1,564
Financial assets at FVTPL	4,220	2,791	2,559	1,897	1,881	1,841
Other current assets	26,066	24,841	37,215	24,606	23,354	23,720
Non-current assets	98,229	117,284	120,432	120,484	120,649	120,743
PP&E	19,284	21,927	25,252	26,384	26,491	26,016
Right-of-use assets	1,480	1,896	2,146	2,165	2,059	1,827
Deferred income tax	3,715	4,366	5,777	5,777	5,777	5,777
Investment in JVs & assos	37,788	37,137	30,100	30,510	30,790	31,632
Intangibles	16,122	19,873	19,352	19,778	19,370	18,419
Goodwill	103	57	71	71	71	71
Financial assets at FVTPL	2,169	2,364	1,972	1,552	1,539	1,506
Other non-current assets	17,567	29,665	35,763	34,246	34,553	35,495
Total assets	189,832	218,395	232,458	200,728	199,480	199,078
Current liabilities	56,606	77,127	90,456	61,466	61,281	60,478
Short-term borrowings	6,309	11,674	16,577	0	0	0
Account payables	17,746	27,584	35,496	29,709	30,214	29,982
Tax payable	763	947	1,487	713	731	731
Other current liabilities	31,788	36,922	36,896	31,044	30,336	29,765
Non-current liabilities	10,948	16,868	20,225	18,220	17,408	16,808
Long-term borrowings	4,854	8,903	11,514	10,484	9,815	9,380
Bond payables	0	0	0	0	0	0
Deferred income	2,295	2,178	2,880	2,564	2,330	2,157
Other non-current liabilities	3,799	5,787	5,831	5,172	5,264	5,271
Total liabilities	67,554	93,995	110,682	79,686	78,689	77,286
Share capital	10,487	10,490	10,342	10,315	10,315	10,365
Other reserves	102,763	105,230	104,013	104,043	104,184	105,527
Total shareholders equity	113,250	115,720	114,354	114,358	114,500	115,893
Minority interest	9,027	8,680	7,423	6,684	6,291	5,899

Total equity and liabilities	189,832	218,395	232,458	200,728	199,480	199,078
CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	7,454	3,525	(727)	(639)	(417)	149
Depreciation & amortization	6,760	6,798	9,075	9,738	10,407	11,332
Change in working capital	(10,074)	2,601	5,907	(10,606)	(697)	(1,608)
Others	(9,489)	(6,196)	(3,336)	(2,096)	(1,605)	(1,683)
Net cash from operations	(5,349)	6,728	10,919	(3,604)	7,689	8,190
Investing						
Capital expenditure	(8,014)	(11,577)	(10,859)	(11,284)	(10,780)	(10,759)
Acquisition of subsidiaries/ investments	(9,644)	(23,309)	(35,425)	2,574	(600)	(600)
Net proceeds from disposal of short-term investments	4,256	18,394	21,769	2,082	630	673
Others	9,568	14,021	12,765	15,646	5,778	3,267
Net cash from investing	(3,834)	(2,471)	(11,751)	9,019	(4,972)	(7,419)
Financing						
Dividend paid	(3,388)	(3,558)	(2,467)	(833)	(502)	(478)
Net borrowings	3,539	6,688	8,605	(18,786)	(1,030)	(669)
Proceeds from share issues	22,324	489	373	100	100	808
Others	1,803	455	(4,304)	(3,028)	(1,584)	(1,158)
Net cash from financing	24,277	4,074	2,207	(22,547)	(3,016)	(1,497)
Net change in cash						
Cash at the beginning of the year	22,340	37,479	45,865	47,284	30,152	29,853
Exchange difference	44	56	45	0	0	0
Cash at the end of the year	37,479	45,865	47,284	30,152	29,853	29,126
GROWTH	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Revenue	45.7%	17.6%	(16.9%)	(5.6%)	2.6%	0.1%
Gross profit	15.1%	7.3%	(26.7%)	19.2%	20.9%	13.9%
EBITDA	7.7%	(26.0%)	(17.6%)	7.4%	7.5%	14.4%
EBIT	1.2%	(49.0%)	na	na	na	na
Net profit	9.9%	(45.1%)	(81.4%)	(58.7%)	(40.9%)	266.0%
PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Gross profit margin	4.8%	4.4%	3.9%	4.9%	5.7%	6.5%
Operating margin	(2.8%)	(3.0%)	(4.4%)	(3.7%)	(2.7%)	(2.2%)
EBITDA margin	13.2%	8.3%	8.2%	9.4%	9.8%	11.2%
Return on equity (ROE)	7.9%	3.9%	0.7%	0.3%	0.2%	0.6%
GEARING/LIQUIDITY/ACTIVITIES	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Net debt to equity (x)	(0.3)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
Current ratio (x)	1.6	1.3	1.2	1.3	1.3	1.3
Receivable turnover days	26.8	14.9	11.4	18.0	20.0	20.0
Inventory turnover days	43.9	50.4	56.8	48.0	45.0	45.0
Payable turnover days	63.0	83.1	128.6	115.0	115.0	115.0
VALUATION	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
P/E	3.5	6.4	34.4	84.1	142.0	38.9
P/E (diluted)	3.5	6.4	34.4	84.1	142.2	38.9
P/B	0.2	0.2	0.2	0.3	0.2	0.2
P/CFPS	ns	4.2	2.6	ns	3.7	3.5
Div yield (%)	8.9	5.5	1.8	0.8	0.4	0.8

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

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