

GAC Group (2238 HK)

Aion's turning profitable as a positive catalyst

Maintain BUY. GAC's 3Q23 earnings beat, as Aion turned profitable, which could be a positive catalyst. Equity income from JVs was also more resilient than expected. We project GAC's FY24E NP to rise 31% YoY to RMB 6.1bn.

- **3Q23 earnings beat.** GAC's 3Q23 revenue was 2% lower than our prior forecast while its GPM widened by 4.1 pts QoQ and beat our projection by 3 pts. Management attributed such increase to lowered battery price and better product mix from the *Hyper GT*. Excluding GAC Mitsubishi's goodwill impairment, GAC's equity income in 3Q23 rose slightly QoQ, which also beat our forecast. Accordingly, GAC's NP in 3Q23 was about RMB 200mn higher than our prior forecast, despite higher-than-expected impairment.
- **Aion turned profitable in 3Q23, which could attract more investors.** Aion turned profitable in 3Q23, sooner than our prior forecast, underscoring our previous argument of '[a better FY24E ahead](#)'. Despite uncertainties from rising competition and raw-material price volatility, we expect Aion to be close to break even in FY24E. We maintain our sales volume forecast of 0.57mn units for Aion in FY24E but lower its average selling price by 12% to reflect heightened competition and slower-than-expected Hyper ramp-up. We expect GAC's net loss excluding equity income to narrow by RMB 1bn YoY in FY24E.
- **We still take a conservative approach for JVs despite their resilient earnings in 3Q23.** We view GAC Mitsubishi's restructuring as neutral given GAC's capital injection and PP&E purchases. Although we expect GAC's equity income to rise YoY in FY24E, as GAC Mitsubishi's overhang is to be gone, we lower FY24E equity income by RMB 400mn to RMB 8.1bn, as we are concerned about GAC Honda's earnings outlook.
- **Earnings/Valuation.** We only lower our FY23E NP by 5% despite costs for GAC Mitsubishi's restructuring costs, given the 3Q23 earnings beat. We raise FY24E NP by 4% to reflect Aion's improving earnings outlook. We use sum-of-the-parts (SOTP) valuation to factor in Aion's planned spin-off. We value Aion HK\$ 4.0 (prior HK\$4.4) per share, based on 0.7x (unchanged) our revised FY24E P/S. We value HK\$ 2.5 (prior HK\$ 2.6) per share for JVs and associates based on 3.0x (unchanged) our FY24E P/E. We value 0 for all other businesses combined. We maintain BUY rating but lower target price from HK\$ 7.00 to 6.50. 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)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	75,676	110,006	140,545	141,158	148,344
YoY growth (%)	19.8	45.4	27.8	0.4	5.1
Net income (RMB mn)	7,511	7,983	4,670	6,117	6,031
EPS (RMB)	0.73	0.77	0.44	0.58	0.57
YoY growth (%)	25.9	6.3	(41.5)	31.0	(1.4)
P/E (x)	4.1	4.1	7.6	5.9	5.9
P/B (x)	0.3	0.3	0.3	0.3	0.3
Yield (%)	3.6	4.2	2.3	3.0	2.9
ROE (%)	8.6	7.8	4.1	5.1	4.9
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$ 6.50
(Previous TP	HK\$ 7.00)
Up/Downside	+78.6%
Current Price	HK\$ 3.64

China Auto Sector

SHI Ji, CFA

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

DOU Wenjing, CFA

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

GU Sijie

jasongu@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	38,170
Avg 3 mths t/o (HK\$ mn)	58
52w High/Low (HK\$)	5.98/3.57
Total Issued Shares (mn)	10,485
Source: Bloomberg	

Shareholding Structure

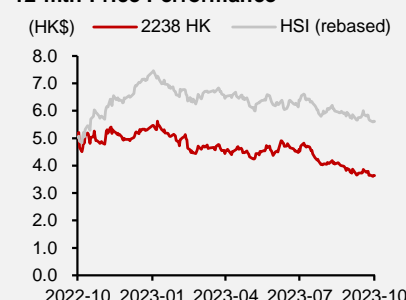
Guangzhou Automobile	52.5%
Industry	
Others	47.5%
Source: HKEx	

Share Performance

	Absolute	Relative
1-mth	-3.2%	-0.8%
3-mth	-19.6%	-7.7%
6-mth	-19.8%	-6.1%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PricewaterhouseCoopers

Related Reports

["GAC Group – Homegrown brands likely to narrow loss in 2H23" – 28 Aug 2023](#)

Figure 1: Quarterly results

RMB mn	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	YoY	QoQ
Sales volume (units)	608,167	541,759	675,024	608,761	539,875	623,029	629,559	-6.7%	1.0%
Revenue	23,268	25,421	31,678	29,639	26,557	35,354	36,271	14.5%	2.6%
Gross profit	1,025	1,160	1,470	2,320	610	1,458	2,963	101.6%	103.2%
R&D expenses	(241)	(319)	(388)	(760)	(397)	(464)	(450)	16.1%	-3.0%
SG&A expenses	(2,110)	(2,287)	(2,324)	(1,676)	(1,883)	(2,528)	(2,809)	20.9%	11.1%
Investment Income	4,227	4,271	3,770	2,049	2,955	2,494	1,833	-51.4%	-26.5%
Operating profit	2,854	2,883	2,102	(383)	1,145	1,241	1,480	-29.6%	19.3%
Net profit	3,009	2,742	2,312	6	1,538	1,428	1,545	-33.2%	8.1%
Gross margin	4.4%	4.6%	4.6%	7.8%	2.3%	4.1%	8.2%	3.5 ppt	4.0 ppt
Operating margin	12.3%	11.3%	6.6%	-1.3%	4.3%	3.5%	4.1%	-2.6 ppt	0.6 ppt
Net margin	12.9%	10.8%	7.3%	0.0%	5.8%	4.0%	4.3%	-3.0 ppt	0.2 ppt

Source: Company data, CMBIGM

Figure 2: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	140,545	141,158	148,344	142,585	156,375	170,166	-1.4%	-9.7%	-12.8%
Gross profit	7,503	9,270	11,988	6,242	8,509	13,603	20.2%	8.9%	-11.9%
Operating profit	(3,899)	(2,288)	(482)	(5,666)	(3,135)	592	N/A	N/A	N/A
Net profit	4,670	6,117	6,031	4,924	5,907	7,593	-5.2%	3.5%	-20.6%
Gross margin	5.3%	6.6%	8.1%	4.4%	5.4%	8.0%	1.0 ppt	1.1 ppt	0.1 ppt
Operating margin	-2.8%	-1.6%	-0.3%	-4.0%	-2.0%	0.3%	1.2 ppt	0.4 ppt	-0.7 ppt
Net margin	3.3%	4.3%	4.1%	3.5%	3.8%	4.5%	-0.1 ppt	0.6 ppt	-0.4 ppt

Source: CMBIGM estimates

Figure 3: CMBI estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	140,545	141,158	148,344	137,195	158,268	176,863	2.4%	-10.8%	-16.1%
Gross profit	7,503	9,270	11,988	7,480	10,172	13,127	0.3%	-8.9%	-8.7%
Operating profit	(3,899)	(2,288)	(482)	(5,469)	(4,571)	(1,118)	N/A	N/A	N/A
Net profit	4,670	6,117	6,031	6,911	7,564	8,326	-32.4%	-19.1%	-27.6%
Gross margin	5.3%	6.6%	8.1%	5.5%	6.4%	7.4%	-0.1 ppt	0.1 ppt	0.7 ppt
Operating margin	-2.8%	-1.6%	-0.3%	-4.0%	-2.9%	-0.6%	1.2 ppt	1.3 ppt	0.3 ppt
Net margin	3.3%	4.3%	4.1%	5.0%	4.8%	4.7%	-1.7 ppt	-0.4 ppt	-0.6 ppt

Source: Bloomberg, CMBIGM estimates

Figure 4: SOTP valuation

GAC (2238 HK)	FY24E (RMB bn)	Target P/E Multiple	Target P/S Multiple	Est. Shareholding	Target Market Cap (HK\$ bn)	Target Price (HK\$)
Estimated Revenue of Aion	70.3	-	0.7x	77%	40.9	4.0
Estimated Share of Profits of Joint Ventures & Associates	8.1	3.0x	-	-	26.1	2.5
SOTP					66.4	6.5

Source: CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	75,676	110,006	140,545	141,158	148,344
Cost of sales	(71,777)	(105,550)	(133,042)	(131,887)	(136,356)
Gross profit	3,899	4,457	7,503	9,270	11,988
Selling exp.	(4,340)	(4,228)	(5,866)	(5,249)	(5,650)
Admin exp.	(4,556)	(5,487)	(6,186)	(6,842)	(7,553)
Other gains	1,371	(1,409)	650	533	733
Operating profit	(3,626)	(6,668)	(3,899)	(2,288)	(482)
Net finance costs	(367)	(21)	239	169	184
Profit share of asso.&JVs	11,404	14,065	7,663	8,063	6,587
Pre-tax profit	7,412	7,377	4,003	5,944	6,289
Tax	154	536	293	170	30
Minority interests	(55)	71	374	3	(287)
Net profit	7,511	7,983	4,670	6,117	6,031

Cash flow

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Profit before taxation	7,412	7,377	4,003	5,944	6,289
Depreciation/amortization	5,719	6,690	7,547	8,500	9,467
Change in working capital	(8,134)	(9,458)	(2,620)	943	(1,193)
Others	(11,488)	(11,246)	(6,341)	(6,570)	(5,387)
Net cash from operating	(6,491)	(6,638)	2,589	8,818	9,176
Capex	(6,243)	(8,014)	(9,000)	(9,100)	(9,100)
Others	13,478	6,421	6,905	6,241	4,160
Net cash from investing	7,235	(1,592)	(2,095)	(2,859)	(4,940)
Net borrowings	2,657	6,200	(6,466)	(1,061)	(2,006)
Dividend paid	(2,135)	(2,485)	(2,321)	(1,639)	(1,969)
Others	255	21,466	(268)	(261)	(254)
Net cash from financing	777	25,181	(9,054)	(2,962)	(4,229)
Net change in cash	1,520	16,950	(8,560)	2,997	7
Cash at year beginning	15,791	17,235	34,222	25,662	28,659
Exchange difference	(76)	37	-	-	-
Cash at year end	17,235	34,222	25,662	28,659	28,666

Balance sheet

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Current assets	61,192	91,792	98,135	101,198	103,959
Cash & equivalents	17,235	34,222	25,662	28,659	28,666
Account receivables	25,110	31,597	44,281	44,474	46,738
Inventories	8,111	12,362	14,580	14,453	14,943
Other current assets	10,736	13,612	13,612	13,612	13,612
Non-current assets	93,059	98,283	100,290	102,102	103,637
PP&E	19,476	20,761	19,645	18,502	17,262
Intangibles	13,581	14,471	16,379	17,257	17,451
Deferred income tax	2,834	3,715	3,715	3,715	3,715
Other non-current assets	57,168	59,335	60,551	62,628	65,208
Total assets	154,251	190,075	198,425	203,301	207,596
Current liabilities	49,133	56,688	63,272	62,878	62,295
Bank borrowings	9,889	13,813	7,777	6,028	-
Account payables	38,490	42,069	54,675	56,007	57,905
Tax payable	202	185	185	185	185
Other current liabilities	551	622	635	658	683
Non-current liabilities	12,469	11,084	10,075	10,582	11,111
Bank borrowings	7,527	5,697	4,697	5,197	5,697
Government Grants	2,196	2,183	2,056	1,947	1,855
Other non-current liabilities	2,747	3,204	3,323	3,438	3,559
Total liabilities	61,602	67,772	73,347	73,460	73,406
Share capital	10,371	10,487	10,518	10,528	10,528
Reserves	79,943	102,802	105,990	110,825	114,967
Non-controlling interests	2,335	9,014	8,570	8,487	8,694
Shareholders' equity	90,313	113,289	116,508	121,353	125,495
Total equity and liabilities	154,251	190,075	198,425	203,301	207,596

Key ratios

YE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Sales mix (%)					
Automobile	65.0	71.5	76.3	78.3	79.3
Parts and services	32.1	25.2	21.1	18.9	17.9
Finance and others	2.9	3.2	2.7	2.8	2.8
Growth (%)					
Revenue	19.8	45.4	27.8	0.4	5.1
Gross profit	69.8	14.3	68.4	23.6	29.3
Operating profit	1.6	83.9	(41.5)	(41.3)	(78.9)
Net profit	25.9	6.3	(41.5)	31.0	(1.4)
Profit & loss ratio (%)					
Gross margin	5.2	4.1	5.3	6.6	8.1
Operating margin	(4.8)	(6.1)	(2.8)	(1.6)	(0.3)
Net profit margin	9.9	7.3	3.3	4.3	4.1
Balance sheet ratio					
Net cash/total equity (x)	0.1	0.1	0.1	0.2	0.2
Current ratio (x)	1.2	1.6	1.6	1.6	1.7
Receivable turnover days	121	105	115	115	115
Inventory turnover days	41	43	40	40	40
Payable turnover days	196	145	150	155	155
Profitability (%)					
ROE	8.6	7.8	4.1	5.1	4.9
ROA	5.1	4.6	2.4	3.0	2.9
Per share data (RMB)					
EPS	0.73	0.77	0.44	0.58	0.57
DPS	0.22	0.24	0.14	0.18	0.18

Source: Company data, CMBIGM estimates

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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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