

# GAC Group (2238 HK)

## 1Q23 earnings miss on gross margin

GAC's 1Q23 net profit was 15% below our prior expectation, largely due to its all-time low gross margin. We are still of the view that GAC is a defensive player in a volatile market. We suggest investors to keep an eye on its *Hyper GT's* sales momentum, as Aion's upmarket could be key to its margins and valuation.

- **1Q23 earnings miss on gross margin, impairment.** Despite Aion's 75% YoY growth in sales volume in 1Q23, GAC's gross margin of 2.3% was the lowest in its history and below our prior expectation of 5%. We estimate that Aion's total net loss in 1Q23 could be around RMB 800mn, based on GAC's minority interest.

After a historical-high quarterly impairment of RMB 2.9bn in 4Q22, GAC posted an impairment loss of RMB 346mn in 1Q23, the highest among all the first quarters in history.

Equity income from joint ventures (JVs) and associates was more resilient than we had expected, falling 29% YoY to RMB 2.9bn (vs. our estimates of RMB 2.7bn) amid a 20% sales-volume decline in 1Q23. Accordingly, GAC's 1Q23 net profit of RMB 1.5bn was 15% lower than our prior forecast.

- **We cut FY23-24E net profit by 7% and 13%.** We raise our FY23E sales volume forecast for Aion from 0.34mn units to 0.35mn units, but cut GAC's FY23E gross margin by 0.6 ppt to 3.5% amid 1Q23 miss. On the other hand, we revise up GAC's FY23E equity income by 2% to reflect better-than-expected 1Q23 results. Therefore, we cut our FY23E net profit by 7% to RMB 6.6bn. We also cut our FY24E net profit by 13%, as we revise down our equity income forecast by 5%. We have also added our forecasts for FY25E. We are of the view that Aion's upmarket move, started from its *Hyper GT's* deliveries in Jun 2023, could be key to its margin improvement and valuation.
- **Valuation/Key risks.** 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) our revised FY23E P/S. We value HK\$ 3.7 per share for JVs and associates based on 3.0x (unchanged) our revised FY23E P/E, which is equivalent to a 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\$ 7.50. 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	114,761	121,694	119,288
YoY growth (%)	19.8	45.4	4.3	6.0	(2.0)
Net income (RMB mn)	7,511	7,983	6,568	7,053	6,687
EPS (RMB)	0.73	0.77	0.62	0.67	0.64
YoY growth (%)	25.9	6.3	(17.7)	7.4	(5.2)
P/E (x)	5.5	5.4	6.8	6.4	6.7
P/B (x)	0.5	0.4	0.4	0.4	0.4
Yield (%)	3.6	4.2	2.9	3.2	3.0
ROE (%)	8.6	7.8	5.7	5.8	5.3
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

### BUY (Maintain)

Target Price	HK\$ 7.50
(Previous TP	HK\$ 7.50)
Up/Downside	+54.0%
Current Price	HK\$ 4.87

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### Stock Data

Mkt Cap (HK\$ mn)	51,050
Avg 3 mths t/o (HK\$ mn)	99
52w High/Low (HK\$)	8.18/4.63
Total Issued Shares (mn)	10,483
Source: Bloomberg	

### Shareholding Structure

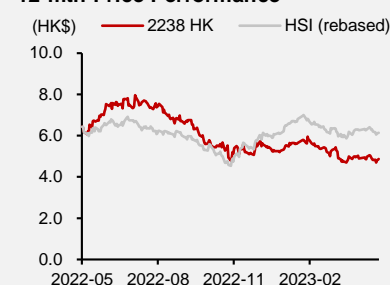
Guangzhou Automobile	52.5%
Industry	
Others	47.5%
Source: HKEx	

### Share Performance

	Absolute	Relative
1-mth	-1.2%	-1.8%
3-mth	-15.9%	-3.6%
6-mth	-1.4%	-35.3%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

### Auditor: PricewaterhouseCoopers

### Related Reports

["GAC Group – Impairment as always: eyes on Aion's upmarket" – 31 Mar 2023](#)

Figure 1: Quarterly results

RMB mn	1Q22	2Q22	3Q22	4Q22	1Q23	YoY	QoQ
Sales volume (units)	608,167	541,759	675,024	608,761	539,875	-11.2%	-11.3%
Revenue	23,268	25,421	31,678	29,639	26,557	14.1%	-10.4%
Gross profit	1,025	1,160	1,470	2,320	610	-40.5%	-73.7%
R&D expenses	(241)	(319)	(388)	(760)	(397)	65.0%	-47.7%
SG&A expenses	(2,110)	(2,287)	(2,324)	(1,676)	(1,883)	-10.8%	12.3%
Investment Income	4,227	4,271	3,770	2,049	2,955	-30.1%	44.2%
Operating profit	2,854	2,883	2,102	(383)	1,145	-59.9%	N/A
Net profit	3,009	2,742	2,312	6	1,538	-48.9%	25453.3%
Gross margin	4.4%	4.6%	4.6%	7.8%	2.3%	-2.1 ppt	-5.5 ppt
Operating margin	12.3%	11.3%	6.6%	-1.3%	4.3%	-8.0 ppt	5.6 ppt
Net margin	12.9%	10.8%	7.3%	0.0%	5.8%	-7.1 ppt	5.8 ppt

Source: Company data, CMBIGM

Figure 2: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	114,761	121,694	119,288	113,470	120,529	N/A	1.1%	1.0%	N/A
Gross profit	4,030	6,463	8,126	4,646	7,077	N/A	-13.3%	-8.7%	N/A
Operating profit	(5,745)	(3,592)	(1,994)	(4,350)	(2,592)	N/A	N/A	N/A	N/A
Net profit	6,568	7,053	6,687	7,051	8,070	N/A	-6.9%	-12.6%	N/A
Gross margin	3.5%	5.3%	6.8%	4.1%	5.9%	N/A	-0.6 ppt	-0.6 ppt	N/A
Operating margin	-5.0%	-3.0%	-1.7%	-3.8%	-2.2%	N/A	-1.2 ppt	-0.8 ppt	N/A
Net margin	5.7%	5.8%	5.6%	6.2%	6.7%	N/A	-0.5 ppt	-0.9 ppt	N/A

Source: CMBIGM estimates

Figure 3: CMBI estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	114,761	121,694	119,288	126,033	146,045	165,562	-8.9%	-16.7%	-27.9%
Gross profit	4,030	6,463	8,126	7,649	10,286	12,275	-47.3%	-37.2%	-33.8%
Operating profit	(5,745)	(3,592)	(1,994)	(4,773)	(778)	(613)	N/A	N/A	N/A
Net profit	6,568	7,053	6,687	9,934	11,119	12,978	-33.9%	-36.6%	-48.5%
Gross margin	3.5%	5.3%	6.8%	6.1%	7.0%	7.4%	-2.6 ppt	-1.7 ppt	-0.6 ppt
Operating margin	-5.0%	-3.0%	-1.7%	-3.8%	-0.5%	-0.4%	-1.2 ppt	-2.4 ppt	-1.3 ppt
Net margin	5.7%	5.8%	5.6%	7.9%	7.6%	7.8%	-2.2 ppt	-1.8 ppt	-2.2 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	45,895	-	1.0x	77%	35,339	3.8
Estimated Share of Profits of Joint Ventures & Associates	11,263	3.0x	-	-	33,789	3.7
<b>SOTP</b>					<b>65,483</b>	<b>7.5</b>

Source: CMBIGM estimates

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Revenue</b>	<b>75,676</b>	<b>110,006</b>	<b>114,761</b>	<b>121,694</b>	<b>119,288</b>
Cost of sales	(71,777)	(105,550)	(110,731)	(115,231)	(111,162)
<b>Gross profit</b>	<b>3,899</b>	<b>4,457</b>	<b>4,030</b>	<b>6,463</b>	<b>8,126</b>
Selling exp.	(4,340)	(4,228)	(4,488)	(4,794)	(4,805)
Admin exp.	(4,556)	(5,487)	(6,113)	(6,380)	(6,435)
Other gains	1,371	(1,409)	826	1,120	1,120
<b>Operating profit</b>	<b>(3,626)</b>	<b>(6,668)</b>	<b>(5,745)</b>	<b>(3,592)</b>	<b>(1,994)</b>
Net finance costs	(367)	(21)	(28)	92	157
Profit share of asso.&JVs	11,404	14,065	11,467	10,048	8,388
<b>Pre-tax profit</b>	<b>7,412</b>	<b>7,377</b>	<b>5,695</b>	<b>6,548</b>	<b>6,551</b>
Tax	154	536	173	105	37
Minority interests	(55)	71	700	400	100
<b>Net profit</b>	<b>7,511</b>	<b>7,983</b>	<b>6,568</b>	<b>7,053</b>	<b>6,687</b>

### Cash flow

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Profit before taxation</b>	<b>7,412</b>	<b>7,377</b>	<b>5,695</b>	<b>6,548</b>	<b>6,551</b>
Depreciation/amortization	5,719	6,690	7,547	8,500	9,467
Change in working capital	(8,134)	(9,458)	(1,163)	471	(796)
Others	(11,488)	(11,246)	(10,321)	(8,662)	(7,245)
<b>Net cash from operating</b>	<b>(6,491)</b>	<b>(6,638)</b>	<b>1,757</b>	<b>6,857</b>	<b>7,977</b>
Capex	(6,243)	(8,014)	(9,000)	(9,100)	(9,100)
Others	13,478	6,421	10,368	8,327	5,798
<b>Net cash from investing</b>	<b>7,235</b>	<b>(1,592)</b>	<b>1,368</b>	<b>(773)</b>	<b>(3,302)</b>
Net borrowings	2,657	6,200	(8,949)	(673)	(2,176)
Dividend paid	(2,135)	(2,485)	(2,468)	(2,153)	(2,238)
Others	255	21,466	(268)	(261)	(254)
<b>Net cash from financing</b>	<b>777</b>	<b>25,181</b>	<b>(11,685)</b>	<b>(3,087)</b>	<b>(4,668)</b>
<b>Net change in cash</b>	<b>1,520</b>	<b>16,950</b>	<b>(8,560)</b>	<b>2,997</b>	<b>7</b>
Cash at beginning of the	15,79	17,235	34,222	25,662	28,659
Exchange difference	(76)	37	-	-	-
<b>Cash at the end of the year</b>	<b>17,235</b>	<b>34,222</b>	<b>25,662</b>	<b>28,659</b>	<b>28,666</b>

### Balance sheet

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Current assets</b>	<b>61,192</b>	<b>91,792</b>	<b>87,566</b>	<b>93,241</b>	<b>92,044</b>
Cash & equivalents	17,235	34,222	25,662	28,659	28,666
Account receivables	25,110	31,597	36,158	38,342	37,584
Inventories	8,111	12,362	12,135	12,628	12,182
Other current assets	10,736	13,612	13,612	13,612	13,612
<b>Non-current assets</b>	<b>93,059</b>	<b>98,283</b>	<b>100,631</b>	<b>102,341</b>	<b>104,038</b>
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	60,891	62,867	65,609
<b>Total assets</b>	<b>154,25</b>	<b>190,075</b>	<b>188,197</b>	<b>195,582</b>	<b>196,082</b>
<b>Current liabilities</b>	<b>49,133</b>	<b>56,688</b>	<b>51,619</b>	<b>53,710</b>	<b>49,331</b>
Bank borrowings	9,889	13,813	5,294	3,933	1,257
Account payables	38,490	42,069	45,506	48,934	47,206
Tax payable	202	185	185	185	185
Other current liabilities	551	622	635	658	683
<b>Non-current liabilities</b>	<b>12,469</b>	<b>11,084</b>	<b>10,075</b>	<b>10,582</b>	<b>11,111</b>
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
<b>Total liabilities</b>	<b>61,602</b>	<b>67,772</b>	<b>61,695</b>	<b>64,292</b>	<b>60,442</b>
Share capital	10,371	10,487	10,518	10,528	10,528
Reserves	79,943	102,802	107,741	112,998	117,528
Non-controlling interests	2,335	9,014	8,244	7,764	7,584
<b>Shareholders' equity</b>	<b>90,313</b>	<b>113,289</b>	<b>118,258</b>	<b>123,526</b>	<b>128,056</b>
<b>Total equity and liability</b>	<b>154,25</b>	<b>190,075</b>	<b>188,197</b>	<b>195,582</b>	<b>196,082</b>

### Key ratios

YE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Sales mix (%)</b>					
Automobile	65.0	71.5	73.9	75.0	75.3
Parts and services	32.1	25.2	22.6	21.4	20.8
Finance and others	2.9	3.2	3.4	3.6	3.8
<b>Growth (%)</b>					
Revenue	19.8	45.4	4.3	6.0	(2.0)
Gross profit	69.8	14.3	(9.6)	60.4	25.7
Operating profit	1.6	83.9	(13.8)	(37.5)	(44.5)
Net profit	25.9	6.3	(17.7)	7.4	(5.2)
<b>Profit &amp; loss ratio (%)</b>					
Gross margin	5.2	4.1	3.5	5.3	6.8
Operating margin	(4.8)	(6.1)	(5.0)	(3.0)	(1.7)
Net profit margin	9.9	7.3	5.7	5.8	5.6
<b>Balance sheet ratio</b>					
Net cash/total equity (x)	0.1	0.1	0.2	0.2	0.2
Current ratio (x)	1.2	1.6	1.7	1.7	1.9
Receivable turnover days	121	105	115	115	115
Inventory turnover days	41	43	40	40	40
Payable turnover days	196	145	150	155	155
<b>Profitability (%)</b>					
ROE	8.6	7.8	5.7	5.8	5.3
ROA	5.1	4.6	3.5	3.7	3.4
<b>Per share data (RMB)</b>					
EPS	0.73	0.77	0.62	0.67	0.64
DPS	0.22	0.24	0.19	0.21	0.20

Source: Company data, CMBIGM estimates

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