

# Geely Automobile (175 HK)

## PHEV could be a positive surprise in FY23

**Upgrade to BUY.** We upgrade Geely Automobile to **BUY** from Hold as we see progressive improvement at Zeekr and more PHEV model rollouts next year, which could boost its NEV sales to about 40% of total sales volume in FY23, on our estimates. We value Zeekr slightly higher than Xpeng's current market cap and Geely's other businesses at 15x our FY23E P/E.

■ **Zeekr is on track for long-term development.** Zeekr is likely to end the year of 2022 with its sales target of 70,000 units achieved, which exceeds many investors' initial expectation. We project Zeekr's sales volume to double in FY23E, aided by a new compact SUV. We value Zeekr 2.5x (the same as our target valuation for Xpeng) FY23E core revenue (excluding Viridi's battery pack sales and R&D services), which would result in HK\$ 109bn for 100% Zeekr's valuation. Despite lagging autonomous driving technologies, Zeekr's recent sales momentum and price positioning are stronger than Xpeng. The gross margin improvement at Zeekr could also be key for valuation next year.

■ **We project Geely's PHEV sales volume (incl. Lynk & Co) to reach 0.2mn units in FY23E.** With lessons learnt from the *Xingyue L* and *Emgrand L* PHEVs, we expect Geely's two new PHEVs in 1H23 to be more successful. We are of the view that BYD's 2/3 market share in the PHEV segment is not sustainable and Geely is likely to be one of the peers to grab share from BYD.

■ **Valuation/Key risks.** Despite tripled sales volume for Geometry in FY22E compared with FY21, its loss-making and high ratio of ride-hailing fleets make us value it the least among Geely's NEV businesses. We estimate profitability for Geely's other businesses, including internal-combustion engine (ICE) vehicles, Lynk & Co, IP licensing and R&D services, to be stable in FY23E, aided by a larger portion of more premium models. We value Geely's all other businesses excluding Zeekr at 15x (prior 10x) our revised FY23 P/E amid higher PHEV sales volume forecast.

We project Geely's FY23 sales volume to rise 3% YoY to 1.5mn units, with almost 0.59mn units being NEVs. We expect Zeekr's net loss to narrow in FY23E. Accordingly, we project Geely's net profit to rise 18% YoY in FY23E, but 20% lower than our prior forecast due to heightened NEV competition. We upgrade our rating to **BUY** from Hold with our target price of HK\$ 16.50 unchanged (SOTP valuation with details in Figure 4). Key risks to our rating and target price include lower sales volume, especially NEVs, than we expect.

### Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	92,114	101,611	143,630	157,650	167,000
YoY growth (%)	(5.4)	10.3	41.4	9.8	5.9
Net income (RMB mn)	5,534	4,847	4,708	5,567	7,027
EPS (RMB)	0.56	0.48	0.46	0.54	0.68
YoY growth (%)	(32.4)	(12.4)	(2.9)	18.2	26.2
P/E (x)	18.0	20.5	23.6	19.8	15.7
P/B (x)	1.6	1.4	1.5	1.4	1.3
Yield (%)	1.2	0.8	1.1	1.3	1.7
ROE (%)	9.4	7.3	6.6	7.4	8.6
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

### BUY (Up)

Target Price	HK\$ 16.50
(Previous TP	HK\$ 16.50)
Up/Downside	+36.4%
Current Price	HK\$ 12.10

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#### Stock Data

Mkt Cap (HK\$ mn)	121,235
Avg 3 mths t/o (HK\$ mn)	789
52w High/Low (HK\$)	24.49/8.30
Total Issued Shares (mn)	10,019

Source: Bloomberg

#### Shareholding Structure

Li Shufu	43.2%
Others	56.8%

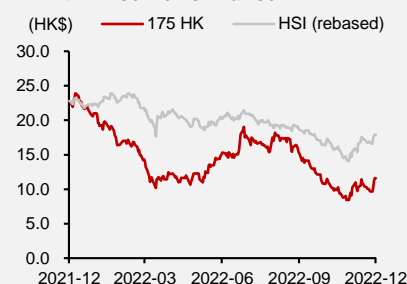
Source: HKEx

#### Share Performance

	Absolute	Relative
1-mth	22.0%	4.0%
3-mth	-23.5%	-19.5%
6-mth	-24.4%	-13.0%

Source: Bloomberg

#### 12-mth Price Performance



Source: Bloomberg

Auditor: Grant Thornton

**Figure 1: Interim results**

RMB mn	1H20	2H20	1H21	2H21	1H22	2H22E	YoY	HoH
Sales volume (units)	530,446	789,771	630,237	697,792	613,842	846,658	21.3%	37.9%
ASP (RMB)	70,888	74,870	75,258	80,835	87,673	87,393	8.1%	-0.3%
Total revenue	36,820	55,294	45,032	56,579	58,184	85,446	51.0%	46.9%
Gross profit	6,302	8,435	7,759	9,653	8,476	13,361	38.4%	57.6%
Selling exp.	(2,190)	(2,864)	(2,554)	(3,769)	(3,304)	(4,796)	27.3%	45.2%
Admin exp.	(2,675)	(3,079)	(3,251)	(4,785)	(4,685)	(6,359)	32.9%	35.7%
Operating profit	2,108	2,861	2,754	1,638	1,384	2,860	74.6%	106.7%
Net profit	2,297	3,237	2,381	2,466	1,552	3,156	28.0%	103.3%
Gross margin	17.1%	15.3%	17.2%	17.1%	14.6%	15.6%	-1.4 ppt	1.1 ppt
Operating margin	5.7%	5.2%	6.1%	2.9%	2.4%	3.3%	0.5 ppt	1.0 ppt
Net margin	6.2%	5.9%	5.3%	4.4%	2.7%	3.7%	-0.7 ppt	1.0 ppt

Source: Company data, CMBIGM estimates

**Figure 2: Earnings revision**

RMB mn	FY22E	New FY23E	FY24E	FY22E	Old FY23E	FY24E	FY22E	Diff (%) FY23E	FY24E
Revenue	143,630	157,650	167,000	143,777	171,250	186,940	-0.1%	-7.9%	-10.7%
Gross Profit	21,837	25,101	28,241	22,356	27,872	30,581	-2.3%	-9.9%	-7.7%
Operating Profit	4,244	5,431	6,463	4,431	7,345	7,757	-4.2%	-26.1%	-16.7%
Net profit	4,708	5,567	7,027	4,706	6,990	7,793	0.1%	-20.4%	-9.8%
Gross Margin	15.2%	15.9%	16.9%	15.5%	16.3%	16.4%	-0.3 ppt	-0.4 ppt	0.6 ppt
Operating Margin	3.0%	3.4%	3.9%	3.1%	4.3%	4.1%	-0.1 ppt	-0.8 ppt	-0.3 ppt
Net Margin	3.3%	3.5%	4.2%	3.3%	4.1%	4.2%	0.0 ppt	-0.6 ppt	0.0 ppt

Source: Company data, CMBIGM estimates

**Figure 3: CMBI estimates vs consensus**

RMB mn	FY22E	CMBIGM FY23E	FY24E	FY22E	Consensus FY23E	FY24E	FY22E	Diff (%) FY23E	FY24E
Revenue	143,630	157,650	167,000	132,062	165,282	195,450	8.8%	-4.6%	-14.6%
Gross Profit	21,837	25,101	28,241	21,168	27,625	33,684	3.2%	-9.1%	-16.2%
Operating Profit	4,244	5,431	6,463	4,189	6,961	9,866	1.3%	-22.0%	-34.5%
Net profit	4,708	5,567	7,027	5,192	7,907	10,461	-9.3%	-29.6%	-32.8%
Gross Margin	15.2%	15.9%	16.9%	16.0%	16.7%	17.2%	-0.8 ppt	-0.8 ppt	-0.3 ppt
Operating Margin	3.0%	3.4%	3.9%	3.2%	4.2%	5.0%	-0.2 ppt	-0.8 ppt	-1.2 ppt
Net Margin	3.3%	3.5%	4.2%	3.9%	4.8%	5.4%	-0.7 ppt	-1.3 ppt	-1.1 ppt

Source: Bloomberg, CMBIGM estimates

**Figure 4: Geely's SOTP valuation table**

	FY23E (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	39	-	2.5x	58%	63	6.3
Estimated net profit for Geely's all other businesses	6	15x	-	-	102	10.2
<b>SOTP</b>					<b>165</b>	<b>16.5</b>

Source: CMBIGM estimates

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Revenue</b>	<b>92,114</b>	<b>101,611</b>	<b>143,630</b>	<b>157,650</b>	<b>167,000</b>
Cost of sales	(77,377)	(84,199)	(121,793)	(132,549)	(138,759)
<b>Gross profit</b>	<b>14,737</b>	<b>17,412</b>	<b>21,837</b>	<b>25,101</b>	<b>28,241</b>
Selling exp.	(5,053)	(6,323)	(8,100)	(8,576)	(9,199)
Admin exp.	(5,754)	(8,036)	(11,043)	(12,244)	(13,730)
Other income	1,039	1,339	1,550	1,150	1,150
<b>Operating profit</b>	<b>4,969</b>	<b>4,393</b>	<b>4,244</b>	<b>5,431</b>	<b>6,463</b>
Share-based payments	(4)	(1,213)	(1,500)	(1,000)	(600)
Net finance costs	208	280	409	288	414
Profit share of asso.&JVs	875	1,205	1,068	1,150	1,552
Other non-oper exp.	392	-	-	-	-
<b>Pre-tax profit</b>	<b>6,441</b>	<b>4,665</b>	<b>4,221</b>	<b>5,868</b>	<b>7,829</b>
Tax	(866)	(312)	(189)	(566)	(816)
Minority interests	(41)	494	677	265	14
<b>Net profit</b>	<b>5,534</b>	<b>4,847</b>	<b>4,708</b>	<b>5,567</b>	<b>7,027</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Profit before taxation</b>	<b>6,441</b>	<b>4,665</b>	<b>4,221</b>	<b>5,868</b>	<b>7,829</b>
Depreciation/amortization	5,491	6,893	8,658	9,707	10,919
Change in working capital	(8,947)	3,964	(5,231)	395	(639)
Others	(1,389)	(174)	23	(438)	(1,366)
<b>Net cash from operating</b>	<b>1,597</b>	<b>15,348</b>	<b>7,671</b>	<b>15,533</b>	<b>16,742</b>
Capex	(7,042)	(6,100)	(9,372)	(9,918)	(9,204)
Others	1,612	(1,059)	(1,066)	1,415	1,640
<b>Net cash from investing</b>	<b>(5,430)</b>	<b>(7,159)</b>	<b>(10,43)</b>	<b>(8,503)</b>	<b>(7,564)</b>
Share issuance	6,13	31	10	-	2,50
Dividend paid	(2,121)	(1,677)	(1,632)	(1,621)	(1,947)
Others	(253)	2,562	1,610	(516)	(566)
<b>Net cash from financing</b>	<b>3,761</b>	<b>916</b>	<b>(12)</b>	<b>(2,137)</b>	<b>(13)</b>
<b>Net change in cash</b>	<b>(72)</b>	<b>9,105</b>	<b>(2,779)</b>	<b>4,892</b>	<b>9,165</b>
Cash at beginning of the year	19,281	18,977	28,014	25,235	30,127
Exchange difference	(232)	(68)	-	-	-
<b>Cash at the end of the year</b>	<b>18,977</b>	<b>28,014</b>	<b>25,235</b>	<b>30,127</b>	<b>39,292</b>

### Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Current assets</b>	<b>50,935</b>	<b>65,296</b>	<b>75,471</b>	<b>85,168</b>	<b>97,475</b>
Cash & equivalents	18,977	28,014	25,235	30,127	39,292
Account receivables	27,868	31,549	41,987	46,086	48,819
Inventories	3,691	5,522	8,008	8,716	9,124
Other current assets	399	211	240	240	240
<b>Non-current assets</b>	<b>59,881</b>	<b>69,046</b>	<b>73,136</b>	<b>73,903</b>	<b>73,056</b>
PP&E	26,574	30,859	30,701	29,762	28,162
Intangibles	18,653	20,959	21,660	22,738	22,550
Deferred income tax	970	2,435	2,435	2,435	2,435
Other non-current assets	13,684	14,793	18,340	18,969	19,909
<b>Total assets</b>	<b>110,816</b>	<b>134,341</b>	<b>148,607</b>	<b>159,072</b>	<b>170,531</b>
<b>Current liabilities</b>	<b>41,887</b>	<b>60,351</b>	<b>66,786</b>	<b>72,591</b>	<b>75,943</b>
Bank borrowings	-	1,907	-	-	-
Account payables	41,516	57,393	65,735	71,540	74,892
Tax payable	340	853	853	853	853
Other current liabilities	30	198	198	198	198
<b>Non-current liabilities</b>	<b>4,716</b>	<b>3,770</b>	<b>7,809</b>	<b>7,898</b>	<b>7,949</b>
Bank borrowings	1,960	-	4,000	4,000	4,000
Long-term payables	2,335	2,863	2,902	2,991	3,042
Other non-current liabilities	421	907	907	907	907
<b>Total liabilities</b>	<b>46,602</b>	<b>64,120</b>	<b>74,595</b>	<b>80,489</b>	<b>83,891</b>
Share capital	180	183	183	183	185
Reserves	60,038	65,010	69,410	74,219	82,287
Non-controlling interests	582	1,615	1,006	768	755
<b>Shareholders' equity</b>	<b>63,631</b>	<b>68,606</b>	<b>73,006</b>	<b>77,815</b>	<b>85,885</b>
<b>Total equity and liabilities</b>	<b>110,816</b>	<b>134,341</b>	<b>148,607</b>	<b>159,072</b>	<b>170,531</b>

### Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Sales mix (%)</b>					
Automobile	91.0	84.8	71.3	61.3	59.7
Auto parts	7.6	8.7	7.3	8.2	8.4
IP licensing & R&D support	1.4	6.6	21.4	30.4	31.9
<b>Growth (%)</b>					
Revenue	(5.4)	10.3	41.4	9.8	5.9
Gross profit	(12.9)	18.2	25.4	14.9	12.5
Operating profit	(42.8)	(11.6)	(3.4)	28.0	19.0
Net profit	(32.4)	(12.4)	(2.9)	18.2	26.2
<b>Profit &amp; loss ratio (%)</b>					
Gross margin	16.0	17.1	15.2	15.9	16.9
Operating margin	5.4	4.3	3.0	3.4	3.9
Net profit margin	6.0	4.8	3.3	3.5	4.2
<b>Balance sheet ratio</b>					
Net cash/total equity (x)	0.2	0.3	0.3	0.3	0.4
Current ratio (x)	1.2	1.1	1.1	1.2	1.3
Receivable turnover days	115	117	110	110	110
Inventory turnover days	17	24	24	24	24
Payable turnover days	198	254	200	200	200
<b>Profitability (%)</b>					
ROE	9.4	7.3	6.6	7.4	8.6
ROA	5.1	4.0	3.3	3.6	4.3
<b>Per share data (RMB)</b>					
EPS	0.56	0.48	0.46	0.54	0.68
DPS	0.17	0.17	0.16	0.19	0.24

Source: Company data, CMBIGM estimates

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