

GAC Group (2238 HK)

PHEV could be a new catalyst

We estimate GAC Group (GAC)'s net profit to rise 22% YoY to RMB5.4bn in FY24E, as Aion's upscale attempt, cost reduction and overseas expansion could help narrow its loss. We are of the view that Aion needs quality growth in FY24E to lay out foundation for long-term development. We project Trumpchi's PHEV sales volume to triple YoY, which may be overlooked by investors.

- Upmarket, cost reduction and overseas expansion as keys to Aion in FY24E.** We maintain our FY24E sales volume forecast of 0.5mn units for Aion, despite its aggressive target of 0.65mn units. We are still of the view that Aion should spend more resources on Hyper in FY24E to build brand image and lift margins, as its sales volume and margins are still vulnerable, based on its 4Q23 financials. We expect sales volume growth in FY24E to come from overseas markets. Management targets 20% cost reduction for batteries in FY24E. We project Aion's GPM to widen by 2ppts YoY in FY24E.
- PHEV sales volume may triple in FY24E.** After launching three new PHEV models priced above RMB200,000 last year, Trumpchi plans to roll out more PHEV models likely priced RMB100,000-200,000 in FY24E. We project its PHEV sales volume to triple YoY in FY24E, taking up more than 20% of Trumpchi's sales. We estimate Trumpchi's NP (excluding GAC Research Institute) to be about RMB600mn in FY23. Such profitability with widening GPM in 4Q23 means the margins for PHEVs could be better than we had expected. We project Trumpchi's FY24E NP to be similar as FY23.
- Equity income to remain flat in FY24E without restructuring burden.** We project GAC Toyota's sales volume to decline 13% YoY to 0.83mn units in FY24E amid the *Camry* transition. We expect discounts for the new *Camry* to widen from 2H24. On the other hand, GAC Toyota's FY23 earnings were more resilient than our prior expectation (the second highest net margin in its history). The loss and associated restructuring costs at GAC Mitsubishi will no longer drag down GAC's equity income in FY24E, which should be enough to offset the profit declines in other joint ventures and associates in FY24E.
- Valuation/Key risks.** Accordingly, we cut our FY24-25E net profits by 15% and 20% to RMB5.4bn and RMB4.8bn, respectively. We use sum-of-the-parts (SOTP) valuation to factor in Aion's planned spin-off. We value Aion HK\$3.3 per share, based on 0.7x (unchanged) our average FY24-25E revenue estimates. We value HK\$2.2 per share for JVs and associates based on 3x our average FY24-25E EPS (see details in Figure 4). We maintain BUY rating and lower target price slightly from HK\$6.00 to HK\$5.50. 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	FY23A	FY24E	FY25E
Revenue (RMB mn)	75,676	110,006	129,706	139,572	147,754
YoY growth (%)	19.8	45.4	17.9	7.6	5.9
Net profit (RMB mn)	7,511.0	7,982.9	4,428.8	5,393.5	4,797.9
YoY growth (%)	25.9	6.3	(44.5)	21.8	(11.0)
EPS (Reported) (RMB)	0.73	0.77	0.42	0.51	0.46
P/E (x)	4.0	3.8	6.9	5.7	6.4
P/B (x)	0.3	0.3	0.3	0.3	0.3
Yield (%)	7.6	8.3	5.1	5.4	4.8
ROE (%)	8.6	7.8	3.9	4.6	3.9
Net gearing (%)	(10.7)	(25.2)	(25.2)	(14.4)	(12.4)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$5.50
(Previous TP)	HK\$6.00
Up/Downside	73.0%
Current Price	HK\$3.18

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Stock Data

Mkt Cap (HK\$ mn)	33,348.4
Avg 3 mths t/o (HK\$ mn)	36.0
52w High/Low (HK\$)	5.05/3.05
Total Issued Shares (mn)	10486.9

Source: FactSet

Shareholding Structure

Guangzhou Automobile Industry	52.5%
Others	47.5%

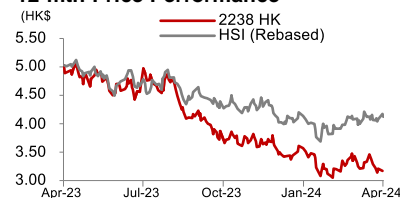
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-7.3%	-8.0%
3-mth	-11.4%	-11.8%
6-mth	-14.3%	-11.2%

Source: FactSet

12-mth Price Performance



Source: FactSet

Related Reports

["GAC Group \(2238 HK\) - FY24E NP to rise YoY on JVs and Aion"-15 Feb 2024](#)

Figure 1: Quarterly results

RMB mn	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	YoY	QoQ
Sales volume (units)	608,167	541,759	675,024	608,761	539,875	623,029	629,559	710,711	16.7%	12.9%
Revenue	23,268	25,421	31,678	29,639	26,557	35,354	36,271	31,524	6.4%	-13.1%
Gross profit	1,025	1,160	1,470	2,320	610	1,458	2,963	1,783	-23.1%	-39.8%
R&D expenses	(241)	(319)	(388)	(760)	(397)	(464)	(450)	(423)	-44.4%	-6.1%
SG&A expenses	(2,110)	(2,287)	(2,324)	(1,676)	(1,883)	(2,528)	(2,809)	(3,276)	95.5%	16.6%
Investment Income	4,227	4,271	3,770	2,049	2,955	2,494	1,833	1,379	-32.7%	-24.8%
Operating profit	2,854	2,883	2,102	(383)	1,145	1,241	1,480	(583)	N/A	N/A
Net profit	3,009	2,742	2,312	6	1,538	1,428	1,545	(82)	N/A	N/A
Gross margin	4.4%	4.6%	4.6%	7.8%	2.3%	4.1%	8.2%	5.7%	-2.2 ppt	-2.5 ppt
Operating margin	12.3%	11.3%	6.6%	-1.3%	4.3%	3.5%	4.1%	-1.8%	-0.6 ppt	-5.9 ppt
Net margin	12.9%	10.8%	7.3%	0.0%	5.8%	4.0%	4.3%	-0.3%	-0.3 ppt	-4.5 ppt

Source: Company data, CMBIGM

Figure 2: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY23A	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	129,706	139,572	147,754	143,989	145,318	152,655	-9.9%	-4.0%	-3.2%
Gross profit	5,527	7,210	9,998	7,695	9,309	11,679	-28.2%	-22.5%	-14.4%
Operating profit	(4,842)	(3,644)	(1,442)	(3,905)	(2,403)	(481)	N/A	N/A	N/A
Net profit	4,429	5,394	4,798	4,729	6,329	6,009	-6.3%	-14.8%	-20.2%
Gross margin	4.3%	5.2%	6.8%	5.3%	6.4%	7.7%	-1.1 ppt	-1.2 ppt	-0.9 ppt
Operating margin	-3.7%	-2.6%	-1.0%	-2.8%	-1.7%	-0.4%	-0.9 ppt	-0.9 ppt	-0.6 ppt
Net margin	3.4%	3.9%	3.2%	3.3%	4.4%	3.9%	0.1 ppt	-0.5 ppt	-0.7 ppt

Source: CMBIGM estimates

Figure 3: CMBI estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY23A	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	129,706	139,572	147,754	136,314	151,605	170,360	-4.8%	-7.9%	-13.3%
Gross profit	5,527	7,210	9,998	8,321	10,397	12,913	-33.6%	-30.7%	-22.6%
Operating profit	(4,842)	(3,644)	(1,442)	(3,136)	(3,685)	(1,658)	N/A	N/A	N/A
Net profit	4,429	5,394	4,798	5,690	6,005	6,384	-22.2%	-10.2%	-24.9%
Gross margin	4.3%	5.2%	6.8%	6.1%	6.9%	7.6%	-1.8 ppt	-1.7 ppt	-0.8 ppt
Operating margin	-3.7%	-2.6%	-1.0%	-2.3%	-2.4%	-1.0%	-1.4 ppt	-0.2 ppt	0.0 ppt
Net margin	3.4%	3.9%	3.2%	4.2%	4.0%	3.7%	-0.8 ppt	-0.1 ppt	-0.5 ppt

Source: Bloomberg, CMBIGM estimates

Figure 4: SOTP valuation

GAC (2238 HK)	FY24-25E Average (RMB bn)	Target P/E Multiple	Target P/S Multiple	Est. Shareholding	Target Market Cap (HK\$ bn)	Target Price (HK\$)
Estimated revenue of Aion	59	-	0.7x	77%	35	3.30
Estimated share of profits of joint ventures & associates	7	3x	-	-	24	2.20
SOTP					59	5.50

Source: CMBIGM estimates

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023A	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	63,157	75,676	110,006	129,706	139,572	147,754
Cost of goods sold	(60,861)	(71,777)	(105,550)	(124,179)	(132,363)	(137,755)
Gross profit	2,296	3,899	4,457	5,527	7,210	9,998
Operating expenses	(6,167)	(7,782)	(11,285)	(10,659)	(11,195)	(11,748)
Selling expense	(3,641)	(4,340)	(4,228)	(6,196)	(6,419)	(6,708)
Admin expense	(3,850)	(4,556)	(5,487)	(5,657)	(5,876)	(6,139)
Others	1,325	1,114	(1,570)	1,194	1,100	1,100
Operating profit	(3,871)	(3,883)	(6,829)	(5,131)	(3,985)	(1,749)
Share of (losses)/profits of associates/JV	9,571	11,404	14,065	8,349	8,274	6,081
EBITDA	11,242	13,555	14,418	11,882	14,219	15,136
Depreciation	2,744	2,878	3,145	3,660	4,141	4,337
Other amortisation	2,367	2,840	3,545	4,229	4,999	5,769
EBIT	6,132	7,837	7,728	3,992	5,079	5,029
Interest income	432	316	491	774	790	697
Interest expense	(440)	(425)	(351)	(467)	(467)	(474)
Pre-tax profit	5,692	7,412	7,377	3,525	4,612	4,555
Income tax	356	154	536	215	293	137
After tax profit	6,048	7,566	7,912	3,740	4,905	4,692
Minority interest	(84)	(55)	71	689	488	106
Net profit	5,964	7,511	7,983	4,429	5,394	4,798
Gross dividends	1,860	2,297	2,516	1,573	1,672	1,487
BALANCE SHEET						
YE 31 Dec (RMB mn)						
Current assets	56,643	61,192	91,792	101,111	98,494	109,417
Cash & equivalents	15,791	17,235	34,222	39,522	29,670	29,678
Restricted cash	2,084	1,624	1,977	2,839	2,839	2,839
Account receivables	19,616	25,110	31,597	26,779	34,415	46,553
Inventories	6,622	8,111	12,362	16,720	16,319	15,096
ST bank deposits	10,624	5,177	3,326	6,825	6,825	6,825
Financial assets at FVTPL	1,595	3,226	4,220	2,791	2,791	2,791
Other current assets	311	709	4,090	5,634	5,634	5,634
Non-current assets	86,218	93,059	98,283	117,338	117,260	116,753
PP&E	20,073	19,476	20,761	24,930	23,353	21,678
Right-of-use assets	6,909	6,818	7,014	8,513	8,256	7,947
Deferred income tax	2,124	2,834	3,715	4,366	4,366	4,366
Investment in JVs & assos	33,404	36,927	37,811	37,160	38,094	39,433
Intangibles	12,259	13,581	14,471	16,470	17,334	17,516
Financial assets at FVTPL	4,375	1,946	2,169	2,364	2,364	2,364
Other non-current assets	7,075	11,478	12,341	23,536	23,493	23,449
Total assets	142,861	154,251	190,075	218,449	215,753	226,169
Current liabilities	42,543	49,133	56,688	77,194	68,723	74,120
Short-term borrowings	6,504	9,889	13,813	17,732	11,410	14,490
Account payables	35,464	38,490	42,069	58,263	56,209	58,499
Tax payable	103	202	185	204	204	204
Other current liabilities	262	358	345	546	546	546
Lease liabilities	209	194	277	450	354	381
Non-current liabilities	13,604	12,469	11,084	16,801	18,930	20,962
Long-term borrowings	8,473	7,527	5,697	10,384	12,384	14,384
Other non-current liabilities	5,131	4,943	5,387	6,416	6,546	6,578
Total liabilities	56,147	61,602	67,772	93,995	87,653	95,082
Share capital	10,350	10,371	10,487	10,490	10,500	10,500
Retained earnings	45,097	50,597	56,051	57,967	61,893	65,066
Other reserves	28,928	29,345	46,750	47,317	47,596	47,596
Total shareholders equity	84,375	90,313	113,289	115,774	119,989	123,162
Minority interest	2,339	2,335	9,014	8,680	8,111	7,926
Total equity and liabilities	142,861	154,251	190,075	218,449	215,753	226,169

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	5,692	7,412	7,377	3,525	4,612	4,555
Depreciation & amortization	5,110	5,719	6,690	7,890	9,140	10,107
Tax paid	(288)	(320)	(338)	215	293	137
Change in working capital	(3,973)	(8,134)	(9,458)	3,171	(9,590)	(8,962)
Others	(10,212)	(11,167)	(10,908)	(6,632)	(6,967)	(4,903)
Net cash from operations	(3,671)	(6,491)	(6,638)	8,169	(2,512)	933
Investing						
Capital expenditure	(6,586)	(6,243)	(8,014)	(14,596)	(9,100)	(9,100)
Acquisition of subsidiaries/ investments	(1,620)	(3,689)	(1,344)	(2,508)	(600)	(600)
Net proceeds from disposal of short-term investments	(632)	(221)	(5,491)	(116)	0	0
Others	5,898	17,388	13,257	8,209	8,290	5,642
Net cash from investing	(2,938)	7,235	(1,592)	(9,011)	(1,410)	(4,058)
Financing						
Dividend paid	(1,862)	(2,071)	(2,407)	(2,413)	(1,467)	(1,626)
Net borrowings	98	936	4,270	8,606	(4,322)	5,080
Proceeds from share issues	607	82	213	570	188	0
Others	(21)	1,829	23,104	92	(330)	(322)
Net cash from financing	(1,178)	777	25,181	6,856	(5,930)	3,133
Net change in cash						
Cash at the beginning of the year	23,605	15,791	17,235	34,222	39,522	29,670
Exchange difference	(27)	(76)	37	(714)	0	0
Cash at the end of the year	15,791	17,235	34,222	39,522	29,670	29,678
GROWTH	2020A	2021A	2022A	2023A	2024E	2025E
YE 31 Dec						
Revenue	5.8%	19.8%	45.4%	17.9%	7.6%	5.9%
Gross profit	(9.0%)	69.8%	14.3%	24.0%	30.4%	38.7%
EBITDA	1.4%	20.6%	6.4%	(17.6%)	19.7%	6.4%
EBIT	(9.9%)	27.8%	(1.4%)	(48.3%)	27.2%	(1.0%)
Net profit	(9.9%)	25.9%	6.3%	(44.5%)	21.8%	(11.0%)
PROFITABILITY	2020A	2021A	2022A	2023A	2024E	2025E
YE 31 Dec						
Gross profit margin	3.6%	5.2%	4.1%	4.3%	5.2%	6.8%
Operating margin	(6.1%)	(5.1%)	(6.2%)	(4.0%)	(2.9%)	(1.2%)
EBITDA margin	17.8%	17.9%	13.1%	9.2%	10.2%	10.2%
Return on equity (ROE)	7.2%	8.6%	7.8%	3.9%	4.6%	3.9%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023A	2024E	2025E
YE 31 Dec						
Net debt to equity (x)	(0.1)	(0.1)	(0.3)	(0.3)	(0.1)	(0.1)
Current ratio (x)	1.3	1.2	1.6	1.3	1.4	1.5
Receivable turnover days	113.4	121.1	104.8	75.4	90.0	115.0
Inventory turnover days	39.7	41.2	42.7	49.1	45.0	40.0
Payable turnover days	212.7	195.7	145.5	171.3	155.0	155.0
VALUATION	2020A	2021A	2022A	2023A	2024E	2025E
YE 31 Dec						
P/E	5.0	4.0	3.8	6.9	5.7	6.4
P/E (diluted)	5.1	4.1	3.8	6.9	5.7	6.4
P/B	0.4	0.3	0.3	0.3	0.3	0.3
P/CFPS	ns	ns	ns	3.8	ns	33.1
Div yield (%)	6.2	7.6	8.3	5.1	5.4	4.8

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

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