CMB International Global Markets | Equity Research | Company Update

GAC Group (2238 HK/601238 CH)

Exports, customer mix to drive margin recovery

Maintain BUY. GAC's 2Q26 net loss widened QoQ on selling expenses and equity income, despite revenue beat. Management raised FY26E export target by 20%, which may result in margin improvement in 2H26E. That, along with improving Aion retail customer mix and continuous cost reduction efforts, could drive multi-year GPM recovery, in our view.

- **2Q26 revenue beat, brand-building expenses drag**. GAC's 2Q26 revenue rose 16% YoY and beat our estimate by 13% to RMB26.3bn. GPM improved slightly to -2.4% (vs. -2.7% in 1Q26 and -4.9% in 2Q25), beating our forecast of -3.1%. Net loss in 2Q26 widened by almost RMB3.2bn QoQ to RMB3.8bn on larger selling expenses (Aistaland's brand building and network build-out, as well as homegrown brands' overseas channel expansion) and weaker equity income (GAC Honda's wider net loss with 30% QoQ sales volume decline).
- **Margin recovery on exports and customer mix improvement**. Following a 132% YoY surge in 1H26 overseas sales volume, management raised its FY26E export target to 0.3mn (from 0.25mn), or ~39% of our homegrown volume forecast. Overseas gross margin is guided at ~8% this year, significantly outperforming domestic negative margins. Localization efforts continue to mitigate tariff risks, with seven KD plants in operation. Meanwhile, Aion's domestic customer mix is improving, with ride-hailing accounting for ~20% in 1H26 (vs. ~50% in FY25). Such trends, coupled with a 15% cost-reduction target in FY26, we expect GPM to recover to -1.2% in 2H26E, +0.6% in FY27E and +2.7% in FY28E.
- **Aistaland rollout on track; JV outlook diverges**. The first Huawei co-developed model, Aistaland *GT7*, launched on 26 Jun with 298 sales channels (40% Huawei-authorized) in operation, following by the 2nd model *GX7* in Sep. GAC Toyota remains resilient, with a denser 2027-28 NEV pipeline supporting our stable RMB2.1-2.2bn annual equity income contribution during FY26-28E. Upcoming models at GAC Honda will incorporate HarmonyOS cockpits and Momenta ADAS solutions. We project GAC Honda's net loss to narrow in FY27-28E.
- **Earnings/Valuation**. We now project GAC's FY26-28E net loss to be RMB9.9bn/6.5bn/4.2bn, respectively. We maintain BUY and cut H-share target price from HK$4.20 to HK$3.60, based on a SOTP valuation: HK$2.85 per share for homegrown businesses at 0.2x FY27E P/S (lowered from 0.3x due to larger net loss projection); and HK$0.75 per share for JVs and associates at an unchanged 3.0x FY27E equity-income P/E. Our A-share target price of RMB8.60 reflects a 175% A/H premium. Key risks include lower sales volume/margins, further JV earnings erosion, higher overseas risks than we expect, and a sector de-rating.

Earnings Summary - 2238 HK

(YE 31 Dec)	FY24A	FY25A	FY26E	FY27E	FY28E
Revenue (RMB mn)	107,784	96,542	113,510	119,240	126,575
YoY growth (%)	(16.9)	(10.4)	17.6	5.0	6.2
Net profit (RMB mn)	823.6	(8,783.6)	(9,913.8)	(6,452.8)	(4,247.5)
EPS (Reported) (RMB cents)	7.92	(85.35)	(97.22)	(63.13)	(41.29)
P/E (x)	24.3	na	na	na	na
P/B (x)	0.2	0.2	0.2	0.2	0.2
Net gearing (%)	(20.6)	(4.8)	0.7	10.0	17.2

Source: Company data, Bloomberg, CMBIGM estimates

	2238 HK	601238 CH
	BUY	BUY
	Maintain	Maintain
TP	HK$3.60	RMB8.60
Prior TP	HK$4.20	RMB9.00
Up/Downside	60.0%	60.4%
Current Price	HK$2.3	RMB5.4

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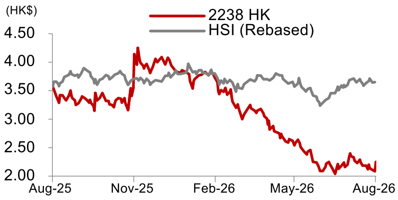
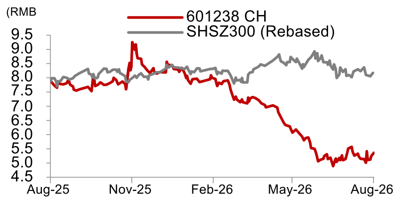
12-mth Price Performance





Source: FactSet

Stock Performance

	2238 HK		601238 CH	
	Abs.	Rel.	Abs.	Rel.
1-mth	2.3%	1.2%	3.1%	1.4%
3-mth	-11.4%	-13.4%	-11.7%	-5.6%
6-mth	-39.7%	-37.2%	-33.4%	-38.4%

Source: FactSet

Stock Data

(LC)	2238 HK	601238 CH
Mkt Cap (mn)	22943.4	54656.273
Avg 3 mths t/o (mn)	31.34	162.93
52w High	4.25	9.25
52w Low	2.04	4.89
Issued Shares (mn)	10197.07	10197.066

Source: FactSet

Figure 1: Quarterly results

RMB mn	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26	YoY	QoQ
Sales volume (units)	371,087	384,213	428,353	537,836	379,929	393,156	2.3%	3.5%
Revenue	19,879	22,732	24,318	29,614	20,229	26,272	15.6%	29.9%
Gross profit	(216)	(1,107)	(1,133)	(244)	(538)	(630)	N/A	N/A
R&D expenses	(377)	(329)	(299)	(634)	(536)	(446)	35.5%	-16.7%
SG&A expenses	(2,370)	(2,310)	(2,486)	(2,885)	(1,953)	(3,252)	40.8%	66.5%
Investment income	1,174	1,229	1,105	(240)	2,132	432	-64.9%	-79.8%
Operating profit	(1,276)	(2,625)	(2,428)	(5,858)	(1,067)	(4,491)	N/A	N/A
Net profit	(732)	(1,807)	(1,774)	(4,472)	(656)	(3,811)	N/A	N/A
Gross margin	-1.1%	-4.9%	-4.7%	-0.8%	-2.7%	-2.4%	2.5 ppts	0.3 ppts
Operating margin	-6.4%	-11.5%	-10.0%	-19.8%	-5.3%	-17.1%	-5.5 ppts	-11.8 ppts
Net margin	-3.7%	-7.9%	-7.3%	-15.1%	-3.2%	-14.5%	-6.6 ppts	-11.3 ppts

Source: Company data, CMBIGM

Figure 2: Earnings revision

	New			Old			Diff (%)		
RMB mn	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Revenue	113,510	119,240	126,575	97,873	107,488	115,842	16.0%	10.9%	9.3%
Gross profit	(1,999)	685	3,479	418	4,816	6,474	N/A	-85.8%	-46.3%
Operating profit	(13,090)	(8,950)	(5,973)	(6,683)	(2,274)	(480)	N/A	N/A	N/A
Net profit	(9,914)	(6,453)	(4,247)	(4,748)	(1,222)	213	N/A	N/A	N/A
Gross margin	-1.8%	0.6%	2.7%	0.4%	4.5%	5.6%	-2.2 ppts	-3.9 ppts	-2.8 ppts
Operating margin	-11.5%	-7.5%	-4.7%	-6.8%	-2.1%	-0.4%	-4.7 ppts	-5.4 ppts	-4.3 ppts
Net margin	-8.7%	-5.4%	-3.4%	-4.9%	-1.1%	0.2%	-3.9 ppts	-4.3 ppts	-3.5 ppts

Source: CMBIGM estimates

Figure 3: CMBI estimates vs consensus

	CMBIGM			Consensus			Diff (%)		
RMB mn	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Revenue	113,510	119,240	126,575	110,033	124,167	133,111	3.2%	-4.0%	-4.9%
Gross profit	(1,999)	685	3,479	3,302	7,212	9,153	N/A	-90.5%	-62.0%
Operating profit	(13,090)	(8,950)	(5,973)	(9,169)	(6,433)	(4,893)	N/A	N/A	N/A
Net profit	(9,914)	(6,453)	(4,247)	(3,791)	(1,184)	1,345	N/A	N/A	N/A
Gross margin	-1.8%	0.6%	2.7%	3.0%	5.8%	6.9%	-4.8 ppts	-5.2 ppts	-4.1 ppts
Operating margin	-11.5%	-7.5%	-4.7%	-8.3%	-5.2%	-3.7%	-3.2 ppts	-2.3 ppts	-1.0 ppts
Net margin	-8.7%	-5.4%	-3.4%	-3.4%	-1.0%	1.0%	-5.3 ppts	-4.5 ppts	-4.4 ppts

Source: CMBIGM estimates

Figure 4: SOTP valuation

GAC (2238 HK)	FY27E (RMB bn)	Target P/E Multiple	Target P/S Multiple	Target Market Cap (HK$ bn)	Target Price (HK$)
Estimated revenue of Homegrown	119		0.2x	29	2.85
Estimated share of profits of joint ventures & associates	2.2	3.0x		8	0.75
SOTP				**37**	**3.60**

Source: CMBIGM estimates

Financial Summary

INCOME STATEMENT	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec (RMB mn)						
Revenue	**129,706**	**107,784**	**96,542**	**113,510**	**119,240**	**126,575**
Cost of goods sold	(121,097)	(100,742)	(97,052)	(113,125)	(116,171)	(120,564)
Others	(2,942)	(2,890)	(2,191)	(2,384)	(2,385)	(2,532)
Gross profit	**5,667**	**4,152**	**(2,700)**	**(1,999)**	**685**	**3,479**
Operating expenses	**(9,547)**	**(8,899)**	**(10,473)**	**(11,728)**	**(10,151)**	**(10,601)**
Selling expense	(5,048)	(5,417)	(5,891)	(6,512)	(5,425)	(5,461)
Admin expense	(4,301)	(4,397)	(4,160)	(4,352)	(4,149)	(4,198)
R&D expense	(1,734)	(1,812)	(1,639)	(2,008)	(1,644)	(1,716)
Others	1,535	2,726	1,217	1,144	1,067	775
Operating profit	**(3,881)**	**(4,747)**	**(13,173)**	**(13,728)**	**(9,465)**	**(7,122)**
Gain/loss on financial assets at FVTPL	(41)	(405)	265	114	88	88
Investment gain/loss	8,660	7,319	3,267	3,382	2,881	3,316
Other gains/(losses)	(772)	(2,370)	(1,446)	(1,764)	(1,310)	(1,020)
EBITDA	**10,764**	**8,871**	**(1,621)**	**(2,364)**	**2,621**	**6,496**
Depreciation	2,660	3,351	2,935	3,121	3,269	3,422
Depreciation of ROU assets	521	640	750	784	924	1,064
Goodwill amortisation	3,269	4,720	5,598	5,448	5,877	6,320
Other amortisation	349	364	182	278	358	427
EBIT	**3,966**	**(204)**	**(11,087)**	**(11,995)**	**(7,807)**	**(4,737)**
Interest income	773	569	409	303	260	234
Interest expense	(441)	(523)	(974)	(945)	(923)	(1,016)
Pre-tax profit	**3,525**	**(727)**	**(12,060)**	**(12,940)**	**(8,730)**	**(5,753)**
Income tax	215	233	578	(516)	329	169
After tax profit	**3,740**	**(494)**	**(11,482)**	**(13,456)**	**(8,402)**	**(5,584)**
Minority interest	689	1,318	2,698	3,542	1,949	1,337
Net profit	**4,429**	**824**	**(8,784)**	**(9,914)**	**(6,453)**	**(4,247)**
Gross dividends	1,573	514	0	0	0	0

BALANCE SHEET	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec (RMB mn)						
Current assets	**101,111**	**112,026**	**99,110**	**85,729**	**87,982**	**90,812**
Cash & equivalents	48,895	51,624	38,776	28,619	29,229	29,270
Account receivables	5,756	3,433	5,114	5,598	5,554	5,549
Inventories	16,720	15,688	16,446	17,976	17,505	18,167
Prepayment	2,108	1,507	1,986	1,860	1,910	1,982
Financial assets at FVTPL	2,791	2,559	2,008	1,574	1,608	1,610
Other current assets	24,841	37,215	34,781	30,103	32,177	34,234
Non-current assets	**117,284**	**120,432**	**115,833**	**116,401**	**116,470**	**116,660**
PP&E	21,927	25,252	25,208	24,758	23,409	22,808
Right-of-use assets	1,896	2,146	2,172	2,088	1,864	1,500
Deferred income tax	4,366	5,777	6,204	6,204	6,204	6,204
Investment in JVs & assos	37,137	30,100	35,533	34,931	34,936	35,319
Intangibles	19,873	19,352	20,541	19,231	17,797	15,902
Goodwill	57	71	71	71	71	71
Financial assets at FVTPL	2,364	1,972	2,733	1,288	1,315	1,317
Other non-current assets	29,665	35,763	23,370	27,829	30,873	33,538
Total assets	**218,395**	**232,458**	**214,943**	**202,130**	**204,453**	**207,472**
Current liabilities	**77,127**	**90,456**	**86,681**	**87,428**	**98,091**	**106,540**
Short-term borrowings	11,674	16,577	24,379	20,154	29,230	35,087
Account payables	27,584	35,496	28,632	34,092	35,010	36,334
Tax payable	947	1,487	630	795	835	886
Other current liabilities	36,922	36,896	33,040	32,387	33,016	34,232
Non-current liabilities	**16,868**	**20,225**	**18,579**	**18,344**	**18,278**	**18,307**
Long-term borrowings	8,903	11,514	6,873	9,097	8,913	8,794
Bond payables	0	0	2,507	0	0	0
Deferred income	2,178	2,880	3,185	3,004	2,913	2,838
Other non-current liabilities	5,787	5,831	6,013	6,242	6,452	6,676
Total liabilities	**93,995**	**110,682**	**105,260**	**105,772**	**116,369**	**124,847**
Share capital	10,490	10,342	10,197	10,197	10,247	10,327
Other reserves	105,230	104,013	95,034	85,231	78,835	74,614
Total shareholders equity	**115,720**	**114,354**	**105,232**	**95,428**	**89,082**	**84,941**
Minority interest	8,680	7,423	4,452	930	(999)	(2,315)
Total equity and liabilities	**218,395**	**232,458**	**214,943**	**202,130**	**204,453**	**207,472**

CASH FLOW	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	**3,525**	**(727)**	**(12,060)**	**(12,940)**	**(8,730)**	**(5,753)**
Depreciation & amortization	6,798	9,075	9,465	9,631	10,428	11,233
Change in working capital	2,601	5,907	(13,274)	837	(600)	165
Others	(6,196)	(3,336)	843	(1,217)	64	(465)
Net cash from operations	**6,728**	**10,919**	**(15,026)**	**(3,689)**	**1,162**	**5,179**
Investing						
Capital expenditure	(11,577)	(10,859)	(8,961)	(11,841)	(10,544)	(11,471)
Acquisition of subsidiaries/ investments	(23,309)	(35,425)	(78,476)	904	(661)	(604)
Net proceeds from disposal of short-term investments	18,394	21,769	73,823	2,408	530	530
Others	14,021	12,765	7,972	9,287	3,008	2,464
Net cash from investing	**(2,471)**	**(11,751)**	**(5,642)**	**759**	**(7,667)**	**(9,081)**
Financing						
Dividend paid	(3,558)	(2,467)	(816)	(1,025)	(1,003)	(1,096)
Net borrowings	6,688	8,605	7,731	(4,920)	8,793	5,673
Proceeds from share issues	489	373	40	100	98	96
Others	455	(4,304)	(1,439)	(1,381)	(771)	(730)
Net cash from financing	**4,074**	**2,207**	**5,515**	**(7,226)**	**7,116**	**3,943**
Net change in cash						
Cash at the beginning of the year	37,479	45,865	47,284	32,151	21,994	22,605
Exchange difference	56	45	20	0	0	0
Cash at the end of the year	**45,865**	**47,284**	**32,151**	**21,994**	**22,605**	**22,646**

GROWTH	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec						
Revenue	17.6%	(16.9%)	(10.4%)	17.6%	5.0%	6.2%
Gross profit	7.3%	(26.7%)	na	na	na	407.8%
EBITDA	(26.0%)	(17.6%)	na	na	na	147.8%
EBIT	(49.0%)	na	na	na	na	na
Net profit	(45.1%)	(81.4%)	na	na	na	na

PROFITABILITY	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec						
Gross profit margin	4.4%	3.9%	(2.8%)	(1.8%)	0.6%	2.7%
Operating margin	(3.0%)	(4.4%)	(13.6%)	(12.1%)	(7.9%)	(5.6%)
EBITDA margin	8.3%	8.2%	(1.7%)	(2.1%)	2.2%	5.1%
Return on equity (ROE)	3.9%	0.7%	(8.0%)	(9.9%)	(7.0%)	(4.9%)

GEARING/LIQUIDITY/ACTIVITIES	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec						
Net debt to equity (x)	(0.2)	(0.2)	(0.0)	0.0	0.1	0.2
Current ratio (x)	1.3	1.2	1.1	1.0	0.9	0.9
Receivable turnover days	14.9	11.4	17.4	17.0	16.0	15.0
Inventory turnover days	50.4	56.8	61.8	58.0	55.0	55.0
Payable turnover days	83.1	128.6	107.7	110.0	110.0	110.0

VALUATION	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec						
P/E	4.5	24.3	ns	ns	ns	ns
P/E (diluted)	4.6	24.3	ns	ns	ns	ns
P/B	0.2	0.2	0.2	0.2	0.2	0.2
P/CFPS	3.0	1.8	ns	ns	17.0	3.8
Div yield (%)	7.8	2.6	0.0	0.0	0.0	0.0

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

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NOT RATED	: Stock is not rated by CMBIGM
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MARKET-PERFORM	: Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM	: Industry expected to underperform the relevant broad market benchmark over next 12 months

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