

# Geely Automobile (175 HK)

## Zeekr trending up; Other brands still uncertain

**Maintain HOLD.** Geely's 1H21 net profit fell 35% YoY to RMB 1.6bn, below our expectation. While we turn more positive to Zeekr now, Geely's other businesses could still drag down its valuation given its currently low earnings quality.

- **Highest revenue coupled with lowest gross margin.** Revenue in 1H22 rose 29% YoY, higher than our expectation due to battery pack sales. Gross margin of 14.6% was almost 2 pts lower than our forecast. Management attributes it mainly to rising battery costs. We believe Geely's lingering burden from depreciation and amortization also dented margins, as such costs were more than quintupled in four years despite little sales volume changes.
- **We value Zeekr as Xpeng's current market cap.** As noted in several reports earlier, we expect Zeekr's monthly sales volume to reach 10,000 units in 4Q22 and maintain its FY22E sales forecast of 70,000 units. We project its FY23E sales volume to reach 0.15mn units, fueled by lower-priced new models. We value Zeekr's 3x FY23E core revenue (excluding Viridi's battery pack sales and R&D services), which could result in HK\$ 146bn for 100% Zeekr's valuation, equivalent to Xpeng's (XPEV US, BUY) current market cap.
- **How to value other businesses could be a key.** We could have broken down Geely's other businesses into Geometry, PHEVs and others. However, we find it may be difficult to give proper valuation for Geometry now given that about half of its sales volume is from ride-hailing fleets. The market did not react to its tripled monthly deliveries in the past 12 months. Its upcoming models, the G6 and M6, will still use the old ICE-modified platform, which could send a signal to market that the brand is not prioritized. Although market appears to reward BYD's (1211 HK, HOLD) PHEV dominance, we believe current PHEV models are derived ICE products and profitability should be a key focus for valuation.

We cut our FY22E and FY23E net profit estimates by 29%/15%, respectively, following the 1H22 miss. We value Geely's other businesses excluding Zeekr as 10x FY23E P/E to account for uncertainties of these relatively less exciting businesses and potentially more challenging industry landscape next year. Accordingly, we maintain our HOLD rating and raise target price from HK\$ 13.50 to HK\$16.50 (see figure 4 for sum-of-the-parts valuation). Key risks to our rating and target price include higher or lower sales volume than we expect, especially for PHEVs, and sector re-rating or de-rating.

### Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	92,114	101,611	143,777	171,250	186,940
YoY growth (%)	(5.4)	10.3	41.5	19.1	9.2
Net income (RMB mn)	5,534	4,847	4,706	6,990	7,793
EPS (RMB)	0.56	0.48	0.46	0.68	0.75
YoY growth (%)	(32.4)	(12.4)	(2.9)	48.5	11.5
P/E (x)	25.1	28.5	29.9	20.0	18.0
P/B (x)	2.2	2.0	1.9	1.7	1.6
Yield (%)	1.2	0.8	1.2	1.7	1.9
ROE (%)	9.4	7.3	6.6	9.2	9.3
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimate

**HOLD (Maintain)**

Target Price **HK\$ 16.50**  
 (Previous TP **HK\$ 13.50**)  
 Up/Downside **-1.9%**  
 Current Price **HK\$ 16.82**

### China Auto Sector

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#### Stock Data

Mkt Cap (HK\$ mn)	168,510
Avg 3 mths t/o (HK\$ mn)	1283
52w High/Low (HK\$)	29.04/9.79
Total Issued Shares (mn)	10,021

Source: Bloomberg

#### Shareholding Structure

Li Shufu	43.2%
Others	56.8%

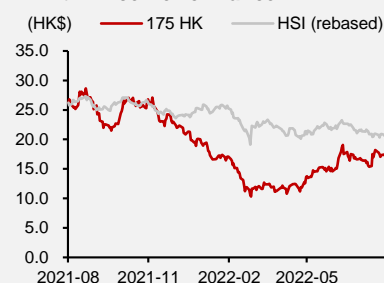
Source: HKEx

#### Share Performance

	Absolute	Relative
1-mth	-0.1%	5.1%
3-mth	22.2%	26.5%
6-mth	1.0%	19.7%

Source: Bloomberg

#### 12-mth Price Performance



Source: Bloomberg

Auditor: GrantThornton

**Figure 1: Interim results**

RMB mn	2H19	1H20	2H20	1H21	2H21	1H22	YoY	HoH
Sales volume (units)	709,880	530,446	789,771	630,237	697,792	613,842	-2.6%	-12.0%
ASP (RMB)	73,489	70,888	74,870	75,258	80,835	86,873	15.4%	7.5%
Total revenue	49,843	36,820	55,294	45,032	56,579	58,184	29.2%	2.8%
Gross profit	8,448	6,302	8,435	7,759	9,653	8,476	9.2%	-12.2%
Selling exp.	(2,076)	(2,190)	(2,864)	(2,554)	(3,769)	(3,304)	29.3%	-12.3%
Admin exp.	(2,667)	(2,675)	(3,079)	(3,251)	(4,785)	(4,685)	44.1%	-2.1%
Operating profit	4,316	2,108	2,861	2,754	1,638	1,384	-49.8%	-15.5%
Net profit	4,180	2,297	3,237	2,381	2,466	1,552	-34.8%	-37.1%
Gross margin	16.9%	17.1%	15.3%	17.2%	17.1%	14.6%	-2.7 ppt	-2.5 ppt
Operating margin	8.7%	5.7%	5.2%	6.1%	2.9%	2.4%	-3.7 ppt	-0.5 ppt
Net margin	8.4%	6.2%	5.9%	5.3%	4.4%	2.7%	-2.6 ppt	-1.7 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	143,777	171,250	186,940	139,073	151,600	N/A	3.4%	13.0%	N/A
Gross Profit	22,356	27,872	30,581	23,354	25,115	N/A	-4.3%	11.0%	N/A
Operating Profit	4,431	7,345	7,757	6,394	6,739	N/A	-30.7%	9.0%	N/A
Net profit	4,706	6,990	7,793	6,628	8,256	N/A	-29.0%	-15.3%	N/A
Gross Margin	15.5%	16.3%	16.4%	16.8%	16.6%	N/A	-1.2 ppt	-0.3 ppt	N/A
Operating Margin	3.1%	4.3%	4.1%	4.6%	4.4%	N/A	-1.5 ppt	-0.2 ppt	N/A
Net Margin	3.3%	4.1%	4.2%	4.8%	5.4%	N/A	-1.5 ppt	-1.4 ppt	N/A

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	143,777	171,250	186,940	128,859	156,510	185,363	11.6%	9.4%	0.9%
Gross Profit	22,356	27,872	30,581	21,929	27,590	33,725	1.9%	1.0%	-9.3%
Operating Profit	4,431	7,345	7,757	5,948	8,483	11,506	-25.5%	-13.4%	-32.6%
Net profit	4,706	6,990	7,793	6,589	9,133	11,868	-28.6%	-23.5%	-34.3%
Gross Margin	15.5%	16.3%	16.4%	17.0%	17.6%	18.2%	-1.5 ppt	-1.4 ppt	-1.8 ppt
Operating Margin	3.1%	4.3%	4.1%	4.6%	5.4%	6.2%	-1.5 ppt	-1.1 ppt	-2.1 ppt
Net Margin	3.3%	4.1%	4.2%	5.1%	5.8%	6.4%	-1.8 ppt	-1.8 ppt	-2.2 ppt

Source: Bloomberg, CMBIGM estimates

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

	FY23E (RMB mn)	Target P/E Multiple	Target P/S Multiple	Geely's Stake	Target Market Cap (HK\$ mn)	Target Price (HK\$)
Estimated core revenue of Zeekr	42,300	-	3x	58%	85,000	8.5
Estimated net profit for Geely's all other businesses	6,901	10x	-	-	80,304	8.0
<b>SOTP</b>					<b>165,304</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>143,777</b>	<b>171,250</b>	<b>186,940</b>
Cost of sales	(77,377)	(84,199)	(121,421)	(143,378)	(156,359)
<b>Gross profit</b>	<b>14,737</b>	<b>17,412</b>	<b>22,356</b>	<b>27,872</b>	<b>30,581</b>
Selling exp.	(5,053)	(6,323)	(8,260)	(9,004)	(9,636)
Admin exp.	(5,754)	(8,036)	(11,214)	(12,673)	(14,338)
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>4,431</b>	<b>7,345</b>	<b>7,757</b>
Share-based payments	(4)	(1,213)	(1,500)	(1,000)	(600)
Net finance costs	208	280	408	317	489
Profit share of asso.&JVs	875	1,205	1,068	1,261	1,632
Other non-oper exp.	392	-	-	-	-
<b>Pre-tax profit</b>	<b>6,441</b>	<b>4,665</b>	<b>4,408</b>	<b>7,923</b>	<b>9,278</b>
Tax	(866)	(312)	(200)	(799)	(994)
Minority interests	(41)	494	499	(134)	(491)
<b>Net profit</b>	<b>5,534</b>	<b>4,847</b>	<b>4,706</b>	<b>6,990</b>	<b>7,793</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>4,408</b>	<b>7,923</b>	<b>9,278</b>
Depreciation/amortization	5,491	6,893	8,658	9,754	11,074
Change in working capital	(8,947)	3,964	(5,465)	1,508	537
Others	(1,389)	(174)	24	(578)	(1,520)
<b>Net cash from operating</b>	<b>1,597</b>	<b>15,348</b>	<b>7,624</b>	<b>18,608</b>	<b>19,368</b>
Capex	(7,042)	(6,100)	(9,379)	(10,555)	(10,060)
Others	1,612	(1,059)	(1,067)	1,443	1,715
<b>Net cash from investing</b>	<b>(5,430)</b>	<b>(7,159)</b>	<b>(10,445)</b>	<b>(9,111)</b>	<b>(8,344)</b>
Share issuance	6,135	31	10	-	2,50
Dividend paid	(2,121)	(1,677)	(1,650)	(1,661)	(2,495)
Others	(253)	2,562	1,610	(516)	(566)
<b>Net cash from financing</b>	<b>3,761</b>	<b>916</b>	<b>(30)</b>	<b>(2,176)</b>	<b>(561)</b>
<b>Net change in cash</b>	<b>(72)</b>	<b>9,105</b>	<b>(2,851)</b>	<b>7,320</b>	<b>10,462</b>
Cash at beginning of the year	19,281	18,977	28,014	25,163	32,483
Exchange difference	(232)	(68)	-	-	-
<b>Cash at the end of the year</b>	<b>18,977</b>	<b>28,014</b>	<b>25,163</b>	<b>32,483</b>	<b>42,946</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>75,418</b>	<b>92,213</b>	<b>108,115</b>
Cash & equivalents	18,977	28,014	25,163	32,483	42,946
Account receivables	27,868	31,549	42,030	50,061	54,648
Inventories	3,691	5,522	7,984	9,428	10,281
Other current assets	399	211	240	240	240
<b>Non-current assets</b>	<b>59,881</b>	<b>69,046</b>	<b>73,143</b>	<b>74,733</b>	<b>74,722</b>
PP&E	26,574	30,859	30,701	29,762	28,162
Intangibles	18,653	20,959	21,666	23,333	23,845
Deferred income tax	970	2,435	2,435	2,435	2,435
Other non-current assets	13,684	14,793	18,341	19,203	20,280
<b>Total assets</b>	<b>110,81</b>	<b>134,341</b>	<b>148,561</b>	<b>166,945</b>	<b>182,837</b>
<b>Current liabilities</b>	<b>41,887</b>	<b>60,351</b>	<b>66,585</b>	<b>78,436</b>	<b>85,442</b>
Bank borrowings	-	1,907	-	-	-
Account payables	41,516	57,393	65,534	77,385	84,391
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>7,806</b>	<b>7,987</b>	<b>8,093</b>
Bank borrowings	1,960	-	4,000	4,000	4,000
Long-term payables	2,335	2,863	2,899	3,080	3,186
Other non-current liabilities	421	907	907	907	907
<b>Total liabilities</b>	<b>46,602</b>	<b>64,120</b>	<b>74,391</b>	<b>86,422</b>	<b>93,535</b>
Share capital	180	183	183	183	185
Reserves	60,038	65,010	69,407	75,641	83,976
Non-controlling interests	582	1,615	1,166	1,286	1,728
<b>Shareholders' equity</b>	<b>63,631</b>	<b>68,606</b>	<b>73,004</b>	<b>79,237</b>	<b>87,574</b>
<b>Total equity and liabilities</b>	<b>110,816</b>	<b>134,341</b>	<b>148,561</b>	<b>166,945</b>	<b>182,837</b>

### Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Sales mix (%)</b>					
Automobile	91.0	84.8	71.3	62.2	59.9
Auto parts	7.6	8.7	7.3	7.6	7.5
IP licensing & R&D support	1.4	6.6	21.4	30.2	32.6
<b>Growth (%)</b>					
Revenue	(5.4)	10.3	41.5	19.1	9.2
Gross profit	(12.9)	18.2	28.4	24.7	9.7
Operating profit	(42.8)	(11.6)	0.9	65.8	5.6
Net profit	(32.4)	(12.4)	(2.9)	48.5	11.5
<b>Profit &amp; loss ratio (%)</b>					
Gross margin	16.0	17.1	15.5	16.3	16.4
Operating margin	5.4	4.3	3.1	4.3	4.1
Net profit margin	6.0	4.8	3.3	4.1	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	9.2	9.3
ROA	5.1	4.0	3.3	4.4	4.5
<b>Per share data (RMB)</b>					
EPS	0.56	0.48	0.46	0.68	0.75
DPS	0.17	0.17	0.16	0.24	0.27

Source: Company data, CMBIGM estimates

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