

# Geely Automobile (175 HK)

## FY22 core earnings miss; PHEV still the key

**Maintain BUY.** Geely's core net profit in FY22 missed our prior forecast despite its all-time high revenue. All eyes should be on its first Galaxy Series model, the L7 PHEV in 2Q23. We expect Geely to have learnt hard lessons from the failure of the *Emgrand L* PHEV and prioritize market share over profitability, in a bid to compete with BYD. We are still of the view that the key to Geely's valuation excluding Zeekr should lie on its PHEV sales volume this year.

■ **FY22 core earnings miss despite all-time high revenue.** Although Geely's FY22 revenue rose 46% YoY to RMB 148bn (6% higher than our prior forecast), 17% of such revenue was from auto parts, R&D support and IP licensing, most of which were connected transactions. Net profit in FY22 rose 9% YoY to RMB 5.3bn, aided by bargain purchase gain from acquiring stakes at Renault Korea. Excluding such gain of RMB 1.8bn, its net profit would have been 23% lower than our prior estimates. Net profit per vehicle for the Geely brand (including the Geometry series) fell to about RMB 730 excluding such gains, based on our calculations.

■ **New models under the Galaxy series as key to Geely's valuation.** Although management reinforced that price cuts are not the solution to withstand the competition during the analyst briefing, we believe Geely still needs to prioritize market share over profitability for NEVs in the short term. We project NEV sales volume at Geely to rise 56% YoY to 0.5mn units, with the Galaxy series contributing 80,000 units. We revise down FY23E sales volume forecast slightly from 1.53mn units to 1.46mn units to reflect the price war. We also cut our FY23E gross margin to a similar level as FY22. Accordingly, we project Geely's FY23E net profit to be RMB 4.6bn, 17% lower than our prior forecast, but still 31% higher than its FY22E core net profit excluding extraordinary gains.

■ **Valuation/Key risks.** We value Zeekr at 2.5x (unchanged) FY23E core revenue (excluding Viridi's battery pack sales and R&D services), which would result in HK\$ 109bn for 100% Zeekr's valuation. We value Geely's all other businesses excluding Zeekr at 14x (prior 15x) our FY23E P/E given its lower profitability outlook. We maintain our BUY rating and cut target price to HK\$ 15.00 (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	FY22A	FY23E	FY24E
Revenue (RMB mn)	92,114	101,611	147,965	168,250	194,770
YoY growth (%)	(5.4)	10.3	45.6	13.7	15.8
Net income (RMB mn)	5,534	4,847	5,260	4,610	6,911
EPS (RMB)	0.56	0.48	0.50	0.44	0.66
YoY growth (%)	(32.4)	(12.4)	8.5	(12.4)	49.9
P/E (x)	18.1	20.7	21.1	24.1	16.0
P/B (x)	1.6	1.4	1.4	1.4	1.3
Yield (%)	1.2	0.9	1.6	1.1	1.6
ROE (%)	9.4	7.3	7.3	6.0	8.3
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

### BUY (Maintain)

Target Price	HK\$ 15.00
(Previous TP	HK\$ 16.50)
Up/Downside	+57.9%
Current Price	HK\$ 9.50

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#### Stock Data

Mkt Cap (HK\$ mn)	95,541
Avg 3 mths t/o (HK\$ mn)	688
52w High/Low (HK\$)	19.20/8.30
Total Issued Shares (mn)	10,057

Source: Bloomberg

#### Shareholding Structure

Li Shufu	43.2%
Others	56.8%

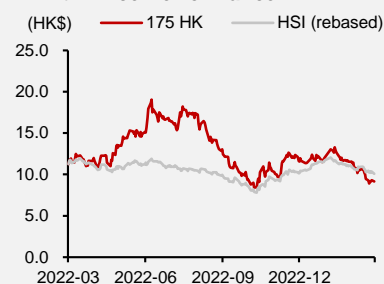
Source: HKEx

#### Share Performance

	Absolute	Relative
1-mth	-20.6%	-11.5%
3-mth	-21.3%	-20.8%
6-mth	-29.7%	-30.9%

Source: Bloomberg

#### 12-mth Price Performance



Source: Bloomberg

#### Auditor: Grant Thornton

#### Related Reports

["Geely Automobile – 2H22E net profit to almost double HoH" – 31 Jan 2023](#)

**Figure 1: Interim results**

RMB mn	1H20	2H20	1H21	2H21	1H22	2H22	YoY	HoH
Sales volume (units)	530,446	789,771	630,237	697,792	613,842	819,146	17.4%	33.4%
ASP (RMB)	70,888	74,870	75,258	80,514	87,673	91,517	13.7%	4.4%
Total revenue	36,820	55,294	45,032	56,579	58,184	89,781	58.7%	54.3%
Gross profit	6,302	8,435	7,759	9,653	8,476	12,420	28.7%	46.5%
Selling exp.	(2,190)	(2,864)	(2,554)	(3,769)	(3,304)	(4,924)	30.7%	49.1%
Admin exp.	(2,675)	(3,079)	(3,251)	(4,785)	(4,685)	(5,750)	20.2%	22.8%
Operating profit	2,108	2,861	2,754	1,638	1,384	2,006	22.4%	45.0%
Net profit	2,297	3,237	2,381	2,466	1,552	3,708	50.4%	138.9%
Gross margin	17.1%	15.3%	17.2%	17.1%	14.6%	13.8%	-3.2 ppt	-0.7 ppt
Operating margin	5.7%	5.2%	6.1%	2.9%	2.4%	2.2%	-0.7 ppt	-0.1 ppt
Net margin	6.2%	5.9%	5.3%	4.4%	2.7%	4.1%	-0.2 ppt	1.5 ppt

Source: Company data, CMBIGM estimates

**Figure 2: Earnings revision**

RMB mn	FY22A	New FY23E	FY24E	FY22E	Old FY23E	FY24E	FY22A	Diff (%) FY23E	FY24E
Revenue	147,965	168,250	194,770	139,326	155,950	167,000	6.2%	7.9%	16.6%
Gross Profit	20,896	23,972	28,543	21,069	24,863	28,241	-0.8%	-3.6%	1.1%
Operating Profit	3,389	3,899	6,401	3,738	5,247	6,500	-9.3%	-25.7%	-1.5%
Net profit	5,260	4,610	6,911	4,579	5,525	7,054	14.9%	-16.6%	-2.0%
Gross Margin	14.1%	14.2%	14.7%	15.1%	15.9%	16.9%	-1.0 ppt	-1.7 ppt	-2.3 ppt
Operating Margin	2.3%	2.3%	3.3%	2.7%	3.4%	3.9%	-0.4 ppt	-1.0 ppt	-0.6 ppt
Net Margin	3.6%	2.7%	3.5%	3.3%	3.5%	4.2%	0.3 ppt	-0.8 ppt	-0.7 ppt

Source: Company data, CMBIGM estimates

**Figure 3: CMBI estimates vs consensus**

RMB mn	FY22A	CMBIGM FY23E	FY24E	FY22E	Consensus FY23E	FY24E	FY22A	Diff (%) FY23E	FY24E
Revenue	147,965	168,250	194,770	132,423	161,452	192,775	11.7%	4.2%	1.0%
Gross Profit	20,896	23,972	28,543	20,907	25,844	32,151	-0.1%	-7.2%	-11.2%
Operating Profit	3,389	3,899	6,401	3,758	5,789	8,216	-9.8%	-32.6%	-22.1%
Net profit	5,260	4,610	6,911	4,852	6,495	8,665	8.4%	-29.0%	-20.2%
Gross Margin	14.1%	14.2%	14.7%	15.8%	16.0%	16.7%	-1.7 ppt	-1.8 ppt	-2.0 ppt
Operating Margin	2.3%	2.3%	3.3%	2.8%	3.6%	4.3%	-0.5 ppt	-1.3 ppt	-1.0 ppt
Net Margin	3.6%	2.7%	3.5%	3.7%	4.0%	4.5%	-0.1 ppt	-1.3 ppt	-0.9 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	6.30
Estimated net profit for Geely's all other businesses	6	14x	-	-	88	8.70
<b>SOTP</b>					<b>151</b>	<b>15.00</b>

Source: CMBIGM estimates

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22A	FY23E	FY24E
<b>Revenue</b>	<b>92,114</b>	<b>101,611</b>	<b>147,965</b>	<b>168,250</b>	<b>194,770</b>
Cost of sales	(77,377)	(84,199)	(127,069)	(144,278)	(166,227)
<b>Gross profit</b>	<b>14,737</b>	<b>17,412</b>	<b>20,896</b>	<b>23,972</b>	<b>28,543</b>
Selling exp.	(5,053)	(6,323)	(8,228)	(9,100)	(9,340)
Admin exp.	(5,754)	(8,036)	(10,435)	(12,123)	(13,702)
Other income	1,039	1,339	1,157	1,150	900
<b>Operating profit</b>	<b>4,969</b>	<b>4,393</b>	<b>3,389</b>	<b>3,899</b>	<b>6,401</b>
Share-based payments	(4)	(1,213)	(1,489)	(1,000)	(1,000)
Net finance costs	208	280	380	256	292
Profit share of asso.&JVs	875	1,205	651	919	1,249
Other non-oper exp.	392	0	1,750	0	0
<b>Pre-tax profit</b>	<b>6,441</b>	<b>4,665</b>	<b>4,682</b>	<b>4,074</b>	<b>6,942</b>
Tax	(866)	(312)	(32)	(95)	(569)
Minority interests	(41)	494	611	631	538
<b>Net profit</b>	<b>5,534</b>	<b>4,847</b>	<b>5,260</b>	<b>4,610</b>	<b>6,911</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22A	FY23E	FY24E
<b>Profit before taxation</b>	<b>6,441</b>	<b>4,665</b>	<b>4,682</b>	<b>4,074</b>	<b>6,942</b>
Depreciation/amortization	5,491	6,893	8,318	8,998	10,200
Change in working capital	(8,947)	3,964	3,590	(1,641)	2,022
Others	(1,389)	(174)	(571)	(175)	(541)
<b>Net cash from operating</b>	<b>1,597</b>	<b>15,348</b>	<b>16,018</b>	<b>11,256</b>	<b>18,623</b>
Capex	(7,042)	(6,100)	(10,337)	(10,414)	(10,396)
Others	1,612	(1,059)	(1,793)	929	1,013
<b>Net cash from investing</b>	<b>(5,430)</b>	<b>(7,159)</b>	<b>(12,130)</b>	<b>(9,485)</b>	<b>(9,383)</b>
Share issuance	6,135	31	9	0	2,500
Dividend paid	(2,121)	(1,677)	(1,833)	(1,803)	(1,560)
Others	(253)	2,562	3,149	(2,724)	(710)
<b>Net cash from financing</b>	<b>3,761</b>	<b>916</b>	<b>1,325</b>	<b>(4,528)</b>	<b>231</b>
<b>Net change in cash</b>	<b>(72)</b>	<b>9,105</b>	<b>5,213</b>	<b>(2,757)</b>	<b>9,471</b>
Cash at beginning of the year	19,281	18,977	28,014	33,341	30,584
Exchange difference	(232)	(68)	114	0	0
<b>Cash at the end of the year</b>	<b>18,977</b>	<b>28,014</b>	<b>33,341</b>	<b>30,584</b>	<b>40,055</b>

### Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22A	FY23E	FY24E
<b>Current assets</b>	<b>50,935</b>	<b>65,296</b>	<b>79,064</b>	<b>89,763</b>	<b>108,430</b>
Cash & equivalents	18,977	28,014	33,341	30,584	40,055
Account receivables	27,868	31,549	34,392	49,184	56,937
Inventories	3,691	5,522	10,822	9,487	10,930
Other current assets	399	211	508	508	508
<b>Non-current assets</b>	<b>59,881</b>	<b>69,046</b>	<b>78,762</b>	<b>81,041</b>	<b>82,606</b>
PP&E	26,574	30,859	32,201	31,411	29,970
Intangibles	18,653	20,959	22,609	24,744	26,307
Deferred income tax	970	2,435	4,573	4,573	4,573
Other non-current assets	13,684	14,793	19,379	20,314	21,756
<b>Total assets</b>	<b>110,816</b>	<b>134,341</b>	<b>157,826</b>	<b>170,804</b>	<b>191,036</b>
<b>Current liabilities</b>	<b>41,887</b>	<b>60,351</b>	<b>68,953</b>	<b>79,280</b>	<b>91,127</b>
Bank borrowings	-	1,907	-	-	-
Account payables	41,516	57,393	65,481	77,870	89,717
Tax payable	340	853	773	773	773
Other current liabilities	30	198	2,699	637	637
<b>Non-current liabilities</b>	<b>4,716</b>	<b>3,770</b>	<b>12,677</b>	<b>12,261</b>	<b>12,442</b>
Bank borrowings	1,960	-	2,758	2,758	2,758
Long-term payables	2,335	2,863	7,602	7,186	7,366
Other non-current liabilities	421	907	2,317	2,317	2,317
<b>Total liabilities</b>	<b>46,602</b>	<b>64,120</b>	<b>81,631</b>	<b>91,542</b>	<b>103,569</b>
Share capital	180	183	184	184	185
Reserves	60,038	65,010	71,534	75,168	83,854
Non-controlling interests	582	1,615	1,065	498	14
<b>Shareholders' equity</b>	<b>63,631</b>	<b>68,606</b>	<b>75,130</b>	<b>78,765</b>	<b>87,453</b>
<b>Total equity and</b>	<b>110,816</b>	<b>134,341</b>	<b>157,826</b>	<b>170,804</b>	<b>191,036</b>

### Key ratios

YE 31 Dec	FY20A	FY21A	FY22A	FY23E	FY24E
<b>Sales mix (%)</b>					
Automobile	91.0	84.6	68.3	57.9	57.8
Auto parts	7.6	8.7	5.9	5.9	5.6
IP licensing & R&D support	1.4	6.8	25.8	36.1	36.5
<b>Growth (%)</b>					
Revenue	(5.4)	10.3	45.6	13.7	15.8
Gross profit	(12.9)	18.2	20.0	14.7	19.1
Operating profit	(42.8)	(11.6)	(22.8)	15.0	64.2
Net profit	(32.4)	(12.4)	8.5	(12.4)	49.9
<b>Profit &amp; loss ratio (%)</b>					
Gross margin	16.0	17.1	14.1	14.2	14.7
Operating margin	5.4	4.3	2.3	2.3	3.3
Net profit margin	6.0	4.8	3.6	2.7	3.5
<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	1.1	1.2
Receivable turnover days	115	117	89	110	110
Inventory turnover days	17	24	31	24	24
Payable turnover days	198	254	193	200	200
<b>Profitability (%)</b>					
ROE	9.4	7.3	7.3	6.0	8.3
ROA	5.1	4.0	3.6	2.8	3.8
<b>Per share data (RMB)</b>					
EPS	0.56	0.48	0.50	0.44	0.66
DPS	0.17	0.18	0.19	0.16	0.24

Source: Company data, CMBIGM estimates

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