

GAC Group (2238 HK)

3Q miss; new models, cost cut as key in FY25

GAC posted the largest quarterly net loss (RMB1.4bn) in 3Q24 since at least 2013, partly due to the FX loss and lower government grants. Management is determined to revive its homegrown brands with a plethora of new models in 2025. The market demand for GAC Toyota and GAC Honda has also recovered a bit recently aided by the peak season and stimulus measures.

■ **3Q24 earnings miss on FX loss and government grants.** GAC's 3Q24 revenue was about 13% higher than our prior forecast and gross margin of 3.6% was 0.1ppts higher than our projection. That was offset by higher-than-expected SG&A and R&D expenses, which resulted in a largely in-line core operating loss of RMB2.1bn for the homegrown brands in 3Q24. Equity income from joint ventures (JVs) and associates rose 34% QoQ to RMB258mn in 3Q24, lower than our prior forecast of RMB400mn, due to higher rebates paid by GAC Toyota to dealers. GAC's 3Q24 net loss of RMB1.4bn was about RMB1bn lower than our prior forecast, mainly due to an unexpected FX loss of RMB610mn and lower government grants.

■ **New models, cost reduction as key to FY25E.** Aion plans to roll out seven EREVs coupled with four BEVs, and Trumpchi is scheduled to launch three new models including a B-class sedan partnered with Huawei in 2025, according to management. New large EREV family cars could partially change consumers' perception on Aion's ride-hailing fleet brand stereotype, in our view. The designed margin before tax for its new models is above 5% in FY25-26E, according to management, higher than its current margin before tax by about 12ppts on our estimates, which may help narrow loss for Aion in FY25-26E. We also expect GAC to cut SG&A expenses in a bid to narrow loss.

■ **Earnings/Valuation.** Although we raise our FY24E sales volume forecast for Aion by 10%, we revise down our net profit/(loss) forecasts to RMB-464mn/RMB129mn/RMB1.1bn for FY24-26E, respectively, as we lower gross margin forecasts amid fiercer competition and cut equity income forecasts for JVs due to lack of competitive NEVs until 2026.

We use sum-of-the-parts (SOTP) valuation: we value Aion at HK\$2.30 per share, based on 0.7x (unchanged) our FY25E revenue estimates. We assign HK\$1.00 per share for JVs and associates based on 4x our FY25E EPS for equity income (see details in Figure 4). We maintain BUY rating and raise target price from HK\$3.00 to HK\$3.30 amid recent market sentiment improvement. Key risks to our rating and target price include lower sales volume and margins than we expect, as well as a sector de-rating.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	110,272	129,706	108,735	105,650	110,381
YoY growth (%)	45.7	17.6	(16.2)	(2.8)	4.5
Net profit (RMB mn)	7,978.4	4,428.8	(463.5)	128.8	1,127.3
YoY growth (%)	6.2	(44.5)	na	na	774.9
EPS (Reported) (RMB)	0.77	0.42	(0.04)	0.01	0.11
P/E (x)	3.4	6.2	ns	213.2	24.4
P/B (x)	0.2	0.2	0.2	0.2	0.2
Yield (%)	9.3	5.8	ns	0.2	1.4
ROE (%)	7.8	3.9	(0.4)	0.1	1.0

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$3.30
(Previous TP)	HK\$3.00
Up/Downside	15.8%
Current Price	HK\$2.85

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Stock Data

Mkt Cap (HK\$ mn)	29,531.8
Avg 3 mths t/o (HK\$ mn)	92.1
52w High/Low (HK\$)	3.82/2.21
Total Issued Shares (mn)	10362.0

Source: FactSet

Shareholding Structure

Guangzhou Automobile	53.2%
Industry	
Others	46.8%

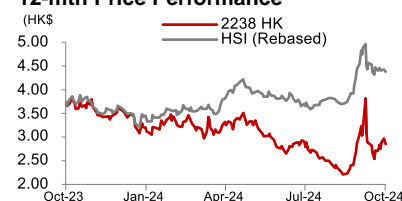
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-6.6%	-3.1%
3-mth	1.8%	-15.1%
6-mth	-12.3%	-23.6%

Source: FactSet

12-mth Price Performance



Source: FactSet

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Figure 1: Quarterly results

RMB mn	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	YoY	QoQ
Sales volume (units)	539,875	623,029	629,559	710,711	409,698	453,340	472,012	-25.0%	4.1%
Revenue	26,557	35,354	36,271	31,524	21,566	24,689	28,486	-21.5%	15.4%
Gross profit	610	1,458	2,963	1,783	1,131	1,050	1,034	-65.1%	-1.6%
R&D expenses	(397)	(464)	(450)	(423)	(375)	(305)	(353)	-21.6%	15.5%
SG&A expenses	(1,883)	(2,528)	(2,809)	(3,276)	(2,301)	(2,590)	(2,787)	-0.8%	7.6%
Investment Income	2,955	2,494	1,833	1,379	1,844	1,414	385	-79.0%	-72.8%
Operating profit	1,145	1,241	1,480	(583)	961	179	(2,134)	N/A	N/A
Net profit	1,538	1,428	1,545	(82)	1,216	300	(1,396)	N/A	N/A
Gross margin	2.3%	4.1%	8.2%	5.7%	5.2%	4.3%	3.6%	-4.5 ppt	-0.6 ppt
Operating margin	4.3%	3.5%	4.1%	-1.8%	4.5%	0.7%	-7.5%	-11.6 ppt	-8.2 ppt
Net margin	5.8%	4.0%	4.3%	-0.3%	5.6%	1.2%	-4.9%	-9.2 ppt	-6.1 ppt

Source: Company data, CMBIGM

Figure 2: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	108,735	105,650	110,381	101,637	105,440	111,011	7.0%	0.2%	-0.6%
Gross profit	4,633	5,725	7,561	5,626	6,899	8,067	-17.7%	-17.0%	-6.3%
Operating profit	(4,297)	(2,714)	(931)	(2,285)	(2,209)	(975)	N/A	N/A	N/A
Net profit	(464)	129	1,127	2,159	1,023	2,480	-121.5%	-87.4%	-54.5%
Gross margin	4.3%	5.4%	6.8%	5.5%	6.5%	7.3%	-1.3 ppt	-1.1 ppt	-0.4 ppt
Operating margin	-4.0%	-2.6%	-0.8%	-2.2%	-2.1%	-0.9%	-1.7 ppt	-0.5 ppt	0.0 ppt
Net margin	-0.4%	0.1%	1.0%	2.1%	1.0%	2.2%	-2.6 ppt	-0.8 ppt	-1.2 ppt

Source: CMBIGM estimates

Figure 3: Earnings revision

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	108,735	105,650	110,381	119,397	129,620	135,860	-8.9%	-18.5%	-18.8%
Gross profit	4,633	5,725	7,561	7,267	8,418	10,374	-36.3%	-32.0%	-27.1%
Operating profit	(4,297)	(2,714)	(931)	(3,463)	(2,925)	(2,373)	N/A	N/A	N/A
Net profit	(464)	129	1,127	2,701	3,168	3,620	-117.2%	-95.9%	-68.9%
Gross margin	4.3%	5.4%	6.8%	6.1%	6.5%	7.6%	-1.8 ppt	-1.1 ppt	-0.8 ppt
Operating margin	-4.0%	-2.6%	-0.8%	-2.9%	-2.3%	-1.7%	-1.1 ppt	-0.3 ppt	0.9 ppt
Net margin	-0.4%	0.1%	1.0%	2.3%	2.4%	2.7%	-2.7 ppt	-2.3 ppt	-1.6 ppt

Source: CMBIGM estimates

Figure 4: SOTP valuation

GAC (2238 HK)	FY25E (RMB bn)	Target P/E Multiple	Target P/S Multiple	Est. Shareholding	Target Market Cap (HK\$ bn)	Target Price (HK\$)
Estimated revenue of Aion	39.2	-	0.7x	77%	24.1	2.30
Estimated share of profits of joint ventures & associates	2.1	4x	-	-	10.5	1.00
SOTP					34.6	3.30

Source: CMBIGM estimates

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	75,676	110,272	129,706	108,735	105,650	110,381
Cost of goods sold	(71,777)	(106,507)	(124,179)	(104,103)	(99,925)	(102,820)
Gross profit	3,899	3,765	5,527	4,633	5,725	7,561
Operating expenses	(7,782)	(10,601)	(10,659)	(9,271)	(8,746)	(8,799)
Selling expense	(4,340)	(3,923)	(6,196)	(6,292)	(5,967)	(5,768)
Admin expense	(4,556)	(5,115)	(5,657)	(5,979)	(5,279)	(5,431)
Others	1,114	(1,563)	1,194	3,000	2,500	2,400
Operating profit	(3,883)	(6,836)	(5,131)	(4,638)	(3,021)	(1,238)
Share of (losses)/profits of associates/JV	11,404	14,065	8,349	2,698	2,136	1,862
EBITDA	13,555	14,410	11,286	7,422	9,102	11,482
Depreciation	2,878	3,145	3,440	3,837	4,204	4,537
Other amortisation	2,840	3,545	3,855	4,672	5,032	5,559
EBIT	7,837	7,720	3,992	(1,087)	(134)	1,387
Interest income	316	491	774	854	751	763
Interest expense	(425)	(352)	(467)	(635)	(604)	(603)
Pre-tax profit	7,412	7,368	3,525	(1,721)	(738)	784
Income tax	154	536	215	354	230	86
After tax profit	7,566	7,904	3,740	(1,368)	(508)	870
Minority interest	(55)	75	689	904	637	257
Net profit	7,511	7,978	4,429	(464)	129	1,127
Gross dividends	2,297	2,516	1,573	(162)	45	395
BALANCE SHEET						
YE 31 Dec (RMB mn)						
Current assets	61,192	91,603	101,111	90,423	90,512	91,594
Cash & equivalents	17,235	34,222	39,522	33,670	34,678	35,686
Restricted cash	1,624	1,977	2,839	2,839	2,839	2,839
Account receivables	25,110	31,407	26,779	23,832	24,603	25,705
Inventories	8,111	12,362	16,720	14,831	13,141	12,113
ST bank deposits	5,177	3,326	6,825	6,825	6,825	6,825
Financial assets at FVTPL	3,226	4,220	2,791	2,791	2,791	2,791
Other current assets	709	4,090	5,634	5,634	5,634	5,634
Non-current assets	93,059	98,283	117,338	118,597	119,988	118,439
PP&E	19,476	20,761	24,930	25,523	26,842	25,873
Right-of-use assets	6,818	7,014	8,513	8,389	8,213	7,985
Deferred income tax	2,834	3,715	4,366	4,366	4,366	4,366
Investment in JVs & assos	36,927	37,811	37,160	37,638	38,337	39,055
Intangibles	13,581	14,471	16,470	16,825	16,418	15,392
Financial assets at FVTPL	1,946	2,169	2,364	2,364	2,364	2,364
Other non-current assets	11,478	12,341	23,536	23,492	23,448	23,404
Total assets	154,251	189,886	218,449	209,020	210,500	210,033
Current liabilities	49,133	56,718	77,194	69,125	70,583	69,411
Short-term borrowings	9,889	13,813	17,732	20,961	22,911	20,363
Account payables	38,490	42,099	58,263	47,060	46,541	47,889
Tax payable	202	185	204	204	204	204
Other current liabilities	358	345	546	546	546	546
Lease liabilities	194	277	450	354	381	410
Non-current liabilities	12,469	10,836	16,801	17,888	18,387	18,416
Long-term borrowings	7,527	5,697	10,384	11,384	11,884	11,884
Other non-current liabilities	4,943	5,139	6,416	6,503	6,503	6,531
Total liabilities	61,602	67,554	93,995	87,012	88,970	87,826
Share capital	10,371	10,487	10,490	10,490	10,490	10,491
Retained earnings	50,597	56,067	57,967	56,495	56,734	57,729
Other reserves	29,345	46,750	47,317	47,327	47,327	47,345
Total shareholders equity	90,313	113,304	115,774	114,313	114,552	115,566
Minority interest	2,335	9,027	8,680	7,695	6,978	6,641
Total equity and liabilities	154,251	189,886	218,449	209,020	210,500	210,033

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	7,412	7,368	3,525	(1,721)	(738)	784
Depreciation & amortization	5,719	6,690	7,294	8,508	9,236	10,095
Tax paid	(320)	(338)	(358)	354	230	86
Change in working capital	(8,134)	(9,444)	2,073	(6,611)	170	1,050
Others	(11,167)	(10,914)	(7,930)	(1,742)	(1,266)	(876)
Net cash from operations	(6,491)	(6,638)	4,604	(1,213)	7,631	11,140
Investing						
Capital expenditure	(6,243)	(8,014)	(11,577)	(10,100)	(10,600)	(8,600)
Acquisition of subsidiaries/ investments	(3,689)	(1,344)	(1,340)	(600)	(600)	(600)
Net proceeds from disposal of short-term investments	(221)	(5,491)	(1,773)	0	0	0
Others	17,388	13,257	9,358	3,170	2,337	2,045
Net cash from investing	7,235	(1,592)	(5,333)	(7,530)	(8,863)	(7,155)
Financing						
Dividend paid	(2,071)	(2,407)	(2,411)	(1,008)	110	(132)
Net borrowings	936	4,270	9,451	4,229	2,451	(2,549)
Proceeds from share issues	82	213	98	0	0	19
Others	1,829	23,104	(1,114)	(330)	(322)	(314)
Net cash from financing	777	25,181	6,025	2,891	2,240	(2,976)
Net change in cash						
Cash at the beginning of the year	15,791	17,235	34,222	39,522	33,670	34,678
Exchange difference	(76)	37	4	0	0	0
Cash at the end of the year	17,235	34,222	39,522	33,670	34,678	35,686
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	19.8%	45.7%	17.6%	(16.2%)	(2.8%)	4.5%
Gross profit	69.8%	(3.4%)	46.8%	(16.2%)	23.6%	32.1%
EBITDA	20.6%	6.3%	(21.7%)	(34.2%)	22.6%	26.2%
EBIT	27.8%	(1.5%)	(48.3%)	na	na	na
Net profit	25.9%	6.2%	(44.5%)	na	na	774.9%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	5.2%	3.4%	4.3%	4.3%	5.4%	6.8%
Operating margin	(5.1%)	(6.2%)	(4.0%)	(4.3%)	(2.9%)	(1.1%)
EBITDA margin	17.9%	13.1%	8.7%	6.8%	8.6%	10.4%
Return on equity (ROE)	8.6%	7.8%	3.9%	(0.4%)	0.1%	1.0%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	(0.1)	(0.3)	(0.3)	(0.2)	(0.2)	(0.2)
Current ratio (x)	1.2	1.6	1.3	1.3	1.3	1.3
Receivable turnover days	121.1	104.0	75.4	80.0	85.0	85.0
Inventory turnover days	41.2	42.4	49.1	52.0	48.0	43.0
Payable turnover days	195.7	144.3	171.3	165.0	170.0	170.0
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	3.6	3.4	6.2	ns	213.2	24.4
P/E (diluted)	3.6	3.4	6.2	ns	215.1	24.6
P/B	0.3	0.2	0.2	0.2	0.2	0.2
P/CFPS	ns	ns	5.9	ns	3.6	2.5
Div yield (%)	8.6	9.3	5.8	ns	0.2	1.4

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

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