

GAC Group (2238 HK)

Bottom-out in 2021E

GAC Group announced its FY20 full-year results. Top-line rose by 6%YoY to RMB63.2bn. NP fell 10%YoY to RMB6.0bn (vs CMBI estimate RMB5.8bn). The Company declared a total dividend of RMB0.18 per share, representing a 31% payout ratio. We cut our TP to HK\$11.1 (based on 12.0x 2021E P/E) with an upside of 62.8% from the initial TP HK\$12.1 (based on initial 15.0x 2021E P/E). Reiterate BUY.

- **Core loss (excluding investment income/other income) has narrowed in 2020 and is expected to improve in 2021E.** Even though GAC Trumpchi's sales volume was down 14% in 2020, the sales structure was improved significantly. Specifically, the sales volume of MPV with higher ASP was up 25% YoY. As a result, improvement in sales mix leads to ASP rising to RMB107K in 2020 from RMB97K in 2019. In addition, the revenue of GAC Aion recorded a 50% growth rate driven by sales volume growth of 43%. At the same time, through cost reduction and efficiency improvement measures (sales expense control and one-time provision normalize in 2020), the Company's SG&A ratio declined by 1.8ppt YoY. Therefore, core loss narrowed by 8% to RMB5.5bn. In 2021, Trumpchi will launch several new models, including empow55, GS8, GM6, GS4, GA4, etc. We believe the overall profitability is expected to be improved given the position sales forecast.
- **GAC Aion keeps attracting the attention of the capital market.** On 29 Mar, 2021, GAC Aion has rolled out its fourth model, namely compact SUV Aion Y with a price starting from RMB106K. Aion Y will be the first BEV to be equipped with GAC's magazine batteries. We also believe Aion Y has made a breakthrough in a marketing perspective, targeting young customers through a new brand image. We expect the deepening of sales channels to supermarkets/shopping malls will continue to promote brand recognition. The sales increase of Aion Y will further improve GAC's GPM and provide a re-rating opportunity in the capital market.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue (RMB mn)	72,380	59,704	63,157	67,697	71,403
YoY growth (%)	1.12%	-17.51%	5.78%	7.19%	5.47%
Net income (RMB mn)	10,900	6,616	5,964	7,972	9,527
EPS (RMB)	1.07	0.65	0.58	0.77	0.92
YoY growth (%)	-29%	-39%	-11%	34%	20%
Consensus EPS(RMB)	NA	NA	NA	0.80	0.96
P/E (x)	5.33	8.78	9.85	7.37	6.17
P/B (x)	0.74	0.70	0.68	0.64	0.59
Yield (%)	6.52%	3.52%	3.17%	4.13%	4.93%
ROE (%)	14.93%	8.44%	7.25%	9.14%	10.19%
Net gearing (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price HK\$11.1
(Previous TP) HK\$12.1
Up/Downside +62.8%
Current Price HK\$6.8

China Auto Sector

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Stock Data

Mkt Cap (HK\$ mn)	113,391
Avg 3 mths t/o (HK\$ mn)	405.23
52w High/Low (HK\$)	10.08/5.48
Equity share – 2238.HK	3,099
Equity share – 601238.SH	7,252

Source: Wind

Shareholding Structure

Guangzhou Automobile	72.96%
Industry Group Co., Ltd	
JPMorgan Chase & Co.	3.28%
Brown Brothers Harriman & Co.	1.80%

Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-2.8%	-4.4%
3-mth	-17.6%	-20.8%
6-mth	2.1%	-14.9%

Source: Wind

12-mth Price Performance



Source: Wind

Auditor: PricewaterhouseCoopers

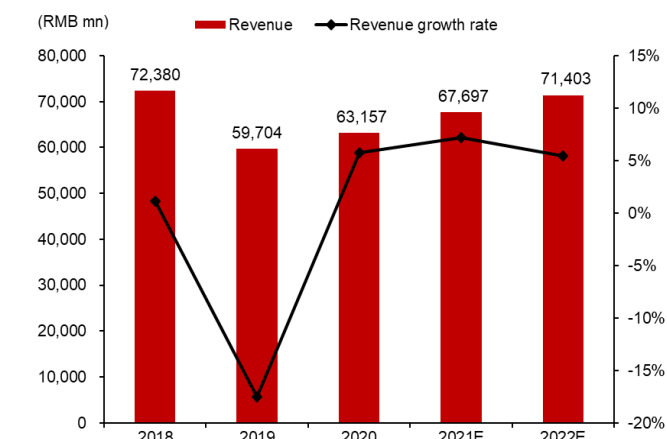
Related Reports

1. "GAC Group (2238 HK) – 3Q20 performance update" – 2 Nov 2020
2. "GAC Group (2238 HK) – Several catalysts support the valuation lift" – 2 Sep 2020
- "GAC Group (2238 HK) – Expect earnings rebound from 2Q20E" – 4 May 2020

- **Two Japanese brands are expected to maintain high growth.** In 2020, GAC Honda sold 806K units with a growth of 2.7% YoY while achieved revenue of RMB118bn with growth of 12.0%YoY. GAC Toyota sold 765K units, up 12.2%YoY while revenue was RMB111bn, up 13.0%YoY. We expect two Japanese brands to continue to enjoy a high growth period, thanks to strong product, marketing, and brand awareness. GAC Honda's fourth plant is expected to put into production in Jul 2021, achieving 800K units capacity. GAC Toyota's fourth plant is also under construction. Capacity expansion will support the high sales growth of two JVs and contribute investment income to GAC Group.
- **We expect performance bottom-out in 2021E.** Specifically, we raised our earnings forecast by 10% to RMB8.0bn in 2021E, representing 34% YoY growth. At the same time, we expect 1) GAC Aion sales volume to continue to climb which will bring more capital market attention. 2) GAC Tech Day will be held on 9 Apr 2021 with a number of cutting-edge technologies such as silicon-based cathode battery, super-charge battery technology, and ADIGO 4.0 intelligent drive ecosystem, etc. We cut our TP to HK\$11.1 (based on 12.0x 2021E P/E) with an upside of 62.8% from the initial TP HK\$12.1 (based on initial 15.0x 2021E P/E). Reiterate BUY.

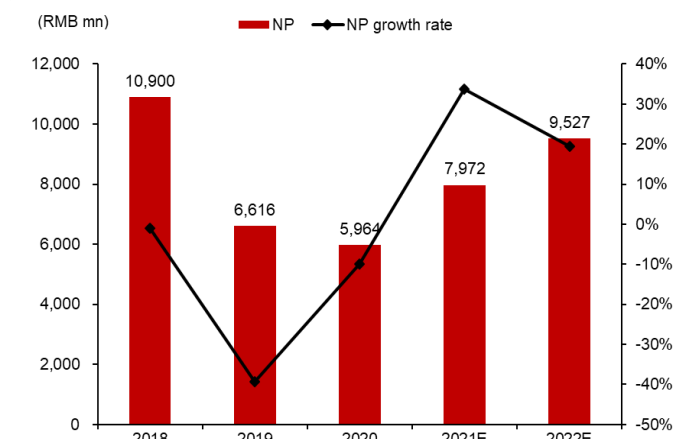
Focus chart

Figure 1: Revenue forecast



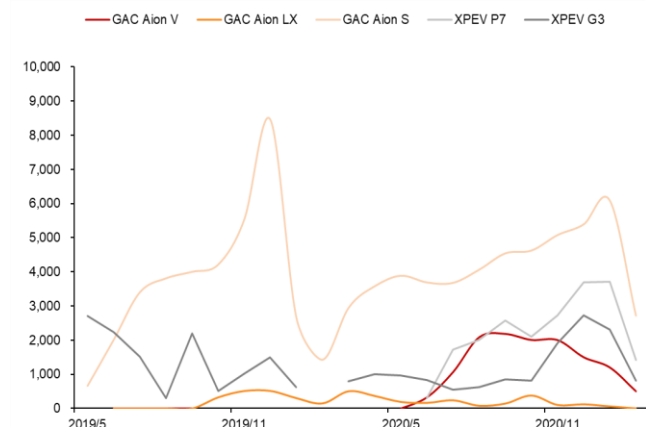
Source: Company data, CMBIS estimates

Figure 2: Bottom-line forecast



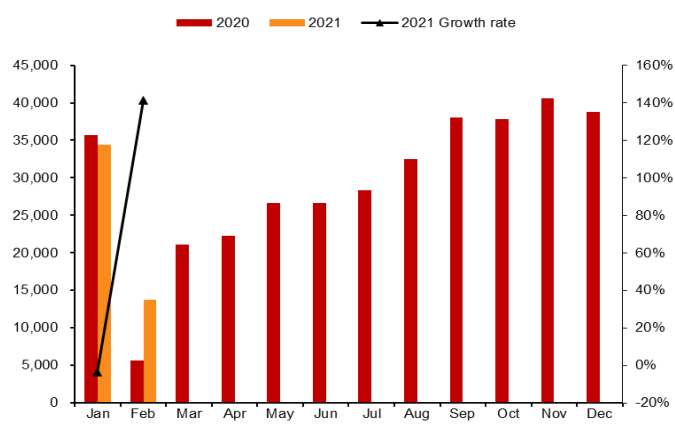
Source: Company data, CMBIS estimates

Figure 3: GAC Aion sales volume vs XPEV



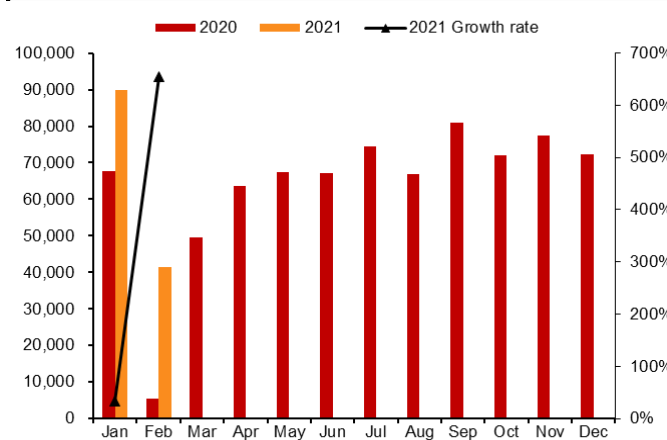
Source: CPCA, CMBIS

Figure 4: GACM sales volume



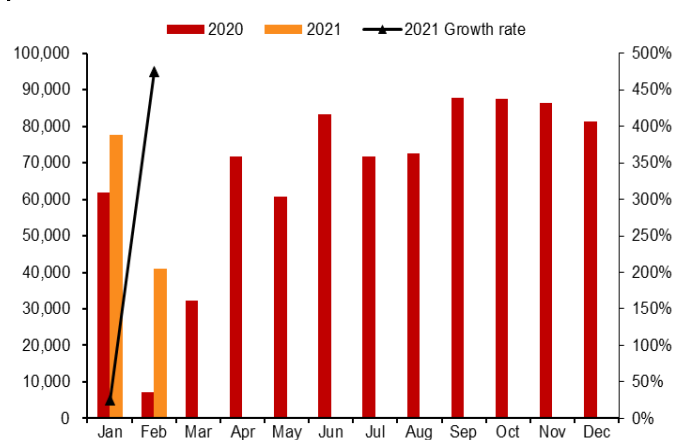
Source: Company data, CMBIS

Figure 5: GAC Toyota sales volume



Source: Company data, CMBIS

Figure 6: GAC Honda sales volume



Source: Company data, CMBIS

Earnings Revision

Figure 7: Earnings revision

(RMB mn)	New		Old		Change (%)	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	67,697	71,403	66,009	69,751	3%	2%
Gross profit	3,778	4,339	3,977	4,469	-5%	-3%
Net profit	7,972	9,527	7,271	8,433	10%	13%
EPS (RMB)	0.77	0.92	0.71	0.82	8%	12%
Gross margin	5.58%	6.08%	6.03%	6.41%	-0.4 ppt	-0.3 ppt
Net Margin	11.78%	13.34%	11.02%	12.09%	0.8 ppt	1.3 ppt

Source: Company data, CMBIS estimates

Figure 8: CMBIS estimates vs consensus

(RMB mn)	CMBIS		Consensus		Diff (%)	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	67,697	71,403	67,955	74,939	0%	-5%
Gross profit	3,778	4,339	4,409	5,693	-14%	-24%
Net profit	7,972	9,527	8,150	9,900	-2%	-4%
EPS (RMB)	0.77	0.92	0.80	0.96	-4%	-4%
Gross margin	5.58%	6.08%	6.49%	7.60%	-0.9 ppt	-1.5 ppt
Net Margin	11.78%	13.34%	11.99%	13.18%	-0.2 ppt	0.2 ppt

Source: Bloomberg, CMBIS estimates

Figure 9: P&L forecast

(RMB mn)	FY18	FY19	FY20	FY21E	FY22E
Revenue	72,380	59,704	63,157	67,697	71,403
...YoY	1.12%	-17.51%	5.78%	7.19%	5.47%
Cost of sales	(60,836)	(57,181)	(60,861)	(63,919)	(67,064)
Gross profit	11,544	2,523	2,296	3,778	4,339
GPM (%)	15.95%	4.23%	3.64%	5.58%	6.08%
...YoY	-10.23%	-78.14%	-9.00%	64.54%	14.86%
Selling Exp	(5,073)	(4,553)	(3,641)	(4,265)	(4,427)
...% of rev	-7.01%	-7.63%	-5.77%	-6.30%	-6.20%
Admin Exp	(4,519)	(3,590)	(3,850)	(4,062)	(4,034)
...% of rev	-6.24%	-6.01%	-6.10%	-6.00%	-5.65%
Operating profit	3,466	(2,763)	(3,567)	(2,924)	(2,497)
OPM (%)	4.79%	-4.63%	-5.65%	-4.32%	-3.50%
...YoY	-22.84%	-179.72%	29.10%	-18.03%	-14.59%
Net profit	10,900	6,616	5,964	7,972	9,527
NPM (%)	15.06%	11.08%	9.44%	11.78%	13.34%
...YoY	-0.95%	-39.30%	-9.85%	33.67%	19.51%

Source: Company data, CMBIS estimates

Figure 10: Revenue breakdown

(RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E
Automobile manufacturing industry	50,394	36,060	37,959	40,158	41,157
...YoY	0%	-28%	5%	6%	2%
Sedans	5,264	5,473	6,010	6,131	6,192
...YoY	31%	4%	10%	2%	1%
SUV	42,046	25,078	24,069	25,754	26,527
...YoY	-9%	-40%	-4%	7%	3%
MPV	3,083	5,510	7,879	8,273	8,439
...YoY	5578%	79%	43%	5%	2%
Auto-parts manufacturing industry	2,882	2,474	2,999	3,149	3,401
...YoY	-1%	-14%	21%	5%	8%
Commercial services	16,374	18,851	19,690	21,856	24,260
...YoY	0%	15%	4%	11%	11%
Financial services and others	2,730	2,319	2,509	2,534	2,585
...YoY	34%	-15%	8%	1%	2%
Total	72,380	59,704	63,157	67,697	71,403
...YoY	1%	-18%	6%	7%	5%

Source: Company data, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue	72,380	59,704	63,157	67,697	71,403
Cost of sales	(60,836)	(57,181)	(60,861)	(63,919)	(67,064)
Gross profit	11,544	2,523	2,296	3,778	4,339
Selling & distribution costs	(5,073)	(4,553)	(3,641)	(4,265)	(4,427)
Admin expenses	(4,519)	(3,590)	(3,850)	(4,062)	(4,034)
Impairment loss on financial assets	(7)	(54)	(55)	(55)	(55)
Interest income from time deposits	453	291	304	326	326
Other gains – net	1,068	2,620	1,380	1,354	1,354
Operating profit/(loss)	3,466	(2,763)	(3,567)	(2,924)	(2,497)
Finance costs	(459)	(516)	(440)	(521)	(594)
Interest income from cash	103	172	128	228	228
PL from JV & associates	8,753	9,399	9,571	11,910	13,308
Profit before income tax	11,863	6,292	5,692	8,693	10,445
Income tax expense	(921)	417	356	(609)	(783)
Profit for the year	10,942	6,709	6,048	8,084	9,661
Less: MI	43	93	84	112	134
Net Profit	10,900	6,616	5,964	7,972	9,527

Cash flow

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E
Net income	10,900	6,616	5,964	7,972	9,527
D&A	3,140	4,184	4,696	5,090	5,625
Change in working capital	(6,263)	9,344	235	1,625	(9,926)
Others	(10,115)	(22,532)	(14,566)	(17,077)	(5,897)
Net cash from operating	(2,338)	(2,388)	(3,671)	(2,390)	(670)
Capex & investments	(9,187)	(12,702)	(7,678)	(9,101)	(8,794)
Associated companies	(3,252)	(3,010)	(1,399)	(3,253)	(2,836)
Others	7,291	15,659	6,139	10,414	15,244
Net cash from investing	(5,148)	(52)	(2,938)	(1,939)	3,614
Equity raised	360	1,116	-	-	-
Change of debts	1,528	2,830	(4,650)	4,503	2,124
Dividend paid	(3,786)	(2,047)	(1,860)	(2,425)	(2,898)
Others	(114)	(3,610)	5,332	-	-
Net cash from financing	(2,012)	(1,711)	(1,178)	2,077	(775)
Net change in cash	(9,498)	(4,151)	(7,787)	(2,252)	2,169
Cash at the beginning	39,355	31,572	25,283	17,876	15,624
Exchange difference	1,714	(2,138)	380	-	-
Cash at the end	31,572	25,283	17,876	15,624	17,793
Less: pledged cash	3,842	1,678	2,084	2,084	2,084

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E
Non-current assets	65,963	80,599	86,218	92,457	99,666
Fixed asset	16,318	19,396	20,073	22,066	23,320
Intangible assets	8,540	10,810	12,259	15,055	16,983
Interest in JV /associates	28,995	32,005	33,404	36,656	39,492
Other non-current assets	12,109	18,388	20,482	18,680	19,870
Current assets	66,211	56,865	56,643	55,616	60,808
Cash	31,572	25,283	17,876	15,624	17,793
Account receivable	16,605	16,844	19,616	20,514	23,033
Inventory	6,730	6,928	6,622	6,948	7,452
Other current assets	11,304	7,810	12,530	12,530	12,530
Current liabilities	40,291	41,776	42,543	48,032	52,486
Borrowings	2,829	6,347	6,976	9,979	11,278
Account payables	35,786	33,616	33,972	36,318	39,449
Other payables	1,336	1,529	1,493	1,529	1,529
Tax payables	340	284	103	207	230
Non-current liabilities	13,908	13,180	13,604	7,620	8,804
Borrowings	9,611	8,924	9,777	5,145	5,969
Provisions	675	1,015	603	1,015	1,071
Deferred income tax	161	183	138	122	157
Others	3,461	3,058	3,087	1,338	1,607
Shareholders' equity	76,604	80,188	84,375	90,082	96,845
Minority Interest	1,371	2,320	2,339	2,339	2,339
Total net assets	77,975	82,508	86,714	92,420	99,183

Key ratios

YE 31 Dec	FY18A	FY19A	FY20A	FY21E	FY22E
Sales mix (%)					
Automobile manufacturing	70%	60%	60%	59%	58%
Auto-parts manufacturing	4%	4%	5%	5%	5%
Commercial services	23%	32%	31%	32%	34%
Financial services	4%	4%	4%	4%	4%
Total	100%	100%	100%	100%	100%
P&L ratios (%)					
Gross profit margin	16%	4%	4%	6%	6%
Pre-tax margin	16%	11%	9%	13%	15%
Net margin	15%	11%	9%	12%	13%
Effective tax rate	8%	-7%	-6%	7%	8%
Balance sheet ratios					
Current ratio (x)	1.64	1.36	1.33	1.16	1.16
Quick ratio (x)	1.48	1.20	1.18	1.01	1.02
Cash ratio (x)	0.78	0.61	0.42	0.33	0.34
Debtors turnover days	4.36	3.54	3.22	3.30	3.10
Total debt/ total equity ratio (%)	70%	67%	65%	60%	62%
Net debt/ equity ratio (%)	net cash	net cash	net cash	net cash	net cash
Returns (%)					
ROE	15%	8%	7%	9%	10%
ROA	10%	5%	4%	6%	7%
Per share					
EPS (RMB)	1.07	0.65	0.58	0.77	0.92
DPS (RMB)	0.37	0.20	0.18	0.23	0.28
BVPS (RMB)	7.62	8.06	8.38	8.93	9.58

Source: Company data, CMBIS estimates

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