

# Geely (175 HK)

## Volvo story outweighs the performance results

Geely announced its FY19 results, significantly missed CMBI estimates. Revenue achieved RMB97.4bn (vs CMBI estimate of RMB99.0bn/ vs consensus estimate of RMB97.4bn), a decrease of 9% YoY. NP was RM8.2bn (vs CMBI estimate RMB10.7bn / vs consensus estimate of RMB8.7bn), a decrease of 35%. EPS has declined by 36% to RMB0.90 while DPS has decreased by 29% to RMB0.23.

- **Geely sold 1.36mn units in 2019, lower than our estimate of 1.39mn units, leading to its top-line 2% lower than our expectation.** Given factors such as the emission standard switch, the decline of NEV subsidy, and the rebate increased, GPM has dropped to 17.4% in 2019 (vs CMBI estimate of 19.0%/vs consensus estimate of 18.1%) from 20.2% in 2018. In addition, admin exp ratio increased to 5.3% in 2019 from 3.5% in 2018, of which 1.4ppt increase came from the increase in R&D expense.
- **In 2020, Geely will launch 6 new models in different sub-segments, including 3 Geely brand, 2 Lynk&Co and 1 Geometry.** Geely did not adjust its target of 1.41mn for now. However, we believe that the COVID-19 will have a negative impact on spending power of lower-middle-income residents, hurting the low-end vehicle market. Besides, the spread of COVID-19 in oversea countries may potentially disrupt the supply chain. Therefore, we estimated the sales volume will be 1.31mn units (1.17mn Geely brand/140K Lynk&Co) in 2020E, a decrease of 3%YoY.
- **The acquisition of Volvo will help Geely to become a truly multinational corporation.** If the deal were completed, the company would have balanced its domestic/foreign sales proportion at 50/50. Furthermore, Geely and Volvo could have carried out in-depth cooperation, including R&D sharing in the CASE field, production-base sharing, etc. Also, the problem of peer competition will be avoided if Volvo wants to access the capital market. At present, both Geely and Volvo have completed the recruitment of financial advisors. We are expecting the deal process will run smoothly.
- **We adjust down the top-line in 2020E by 21% to RMB95.5bn to reflect the impact of COVID-19.** Furthermore, we also adjust down our bottom-line forecast by 29% to RMB8.7bn in 2020E to further factor-in the lower GPM. However, given its visible potential with Volvo, we only adjust down our TP to HK\$13.1 (based on new 12.0x 2020E P/E) with an upside of 16% from initial TP HK\$16.4 (based on initial 10.5x 2020E P/E). Reiterate BUY.

### Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	106,595	97,401	95,476	96,567	99,934
YoY growth (%)	14.91%	-8.63%	-1.98%	1.14%	3.49%
Net income (RMB mn)	12,553	8,190	8,702	9,308	9,737
EPS (RMB)	1.40	0.90	0.96	1.04	1.07
YoY growth (%)	17%	-36%	6%	8%	3%
Consensus EPS(RMB)	1.40	0.95	1.20	1.66	1.61
P/E (x)	7.10	11.01	10.36	9.57	9.26
P/B (x)	1.82	1.53	1.36	1.21	1.09
Yield (%)	3.11%	2.28%	2.14%	2.32%	2.40%
ROE (%)	31.62%	16.48%	15.20%	14.62%	13.70%
Net gearing (%)	67%	61%	50%	48%	48%

Source: Company data, CMBIS estimates

### BUY (Maintain)

Target Price	HK\$13.1
(Previous TP	HK\$16.4)
Up/Downside	+15.9%
Current Price	HK\$11.3

### China Auto Sector

#### Jack Bai

(852) 3900 0835  
 jackbai@cmbi.com.hk

#### Stock Data

Mkt Cap (HK\$ mn)	103,819
Avg 3 mths t/o (HK\$ mn)	793.26
52w High/Low (HK\$)	18.61/10
Total Issued Shares (mn)	9,204

Source: Bloomberg

#### Shareholding Structure

LI Shu Fu	44.58%
-----------	--------

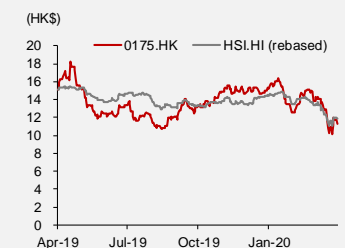
Source: HKEx

#### Share Performance

	Absolute	Relative
1-mth	-18.6%	-8.2%
3-mth	-26.4%	-10.0%
6-mth	-15.2%	-4.5%

Source: Bloomberg

#### 12-mth Price Performance



Source: Bloomberg

#### Auditor: Grant Thornton

#### Related Reports

“Geely (175 HK) – Takeaway from Geely Investor Day” – 21 Oct 2019  
 “Geely (175 HK) – Darkness before the dawn” – 4 Oct 2019

## Earnings Revision

Figure 1: FY19 results review

RMB mn	FY18A	FY19A	YoY	CMBI		Consensus	
				FY19E	Diff (%)	FY19E	Diff (%)
Revenue	106,595	97,401	-9%	99,040	-2%	97,479	0%
Gross profit	21,513	16,917	-21%	18,818	-10%	17,603	-4%
EBIT	14,880	9,528	-36%	12,863	-26%	9,562	0%
Net profit	12,553	8,190	-35%	10,720	-24%	8,723	-6%
EPS (RMB)	1.40	0.90	-36%	1.19	-25%	0.95	-6%
Gross margin	20.18%	17.37%	-2.8 ppt	19.00%	-1.6 ppt	18.06%	-0.7 ppt
EBIT margin	13.96%	9.78%	-4.2 ppt	12.99%	-3.2 ppt	9.81%	0.0 ppt
Net margin	11.78%	8.41%	-3.4 ppt	10.82%	-2.4 ppt	8.95%	-0.5 ppt

Source: Company data, Bloomberg, CMBIS estimates

Figure 2: Earnings revision

(RMB mn)	New		Old		Change (%)	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	95,476	96,567	121,259	128,633	-21%	-25%
Gross profit	16,708	17,382	21,827	23,154	-23%	-25%
EBIT	10,467	11,266	14,709	15,648	-29%	-28%
Net profit	8,702	9,308	12,300	13,118	-29%	-29%
EPS (RMB)	0.96	1.04	1.37	1.46	-30%	-29%
Gross margin	17.50%	18.00%	18.00%	18.00%	-0.5 ppt	0.0 ppt
EBIT margin	10.96%	11.67%	12.13%	12.17%	-1.2 ppt	-0.5 ppt
Net Margin	9.11%	9.64%	10.14%	10.20%	-1.0 ppt	-0.6 ppt

Source: CMBIS estimates

Figure 3: CMBIS estimates vs consensus

(RMB mn)	New		Consensus		Diff (%)	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	95,476	96,567	105,119	115,286	-9%	-16%
Gross profit	16,708	17,382	19,422	21,706	-14%	-20%
EBIT	10,467	11,266	11,176	12,741	-6%	-12%
Net profit	8,702	9,308	10,405	11,771	-16%	-21%
EPS (RMB)	0.96	1.04	1.20	1.66	-20%	-38%
Gross margin	17.50%	18.00%	18.48%	18.83%	1.0 ppt	-0.8 ppt
EBIT margin	10.96%	11.67%	10.63%	11.05%	0.3 ppt	0.6 ppt
Net Margin	9.11%	9.64%	9.90%	10.21%	-0.8 ppt	-0.6 ppt

Source: Bloomberg, CMBIS estimates

Figure 4: Revenue breakdown

(RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Sales of automobiles	102,651	91,843	88,114	87,465	88,659
...YoY	12%	-11%	-4%	-1%	1%
Sales of automobile parts and components	3,944	5,130	6,926	8,657	10,821
...YoY	167%	30%	35%	25%	25%
Licensing of intellectual properties	NA	428	437	445	454
...YoY	NA	NA	2%	2%	2%
<b>Total</b>	<b>106,595</b>	<b>97,401</b>	<b>95,476</b>	<b>96,567</b>	<b>99,934</b>
...YoY	15%	-9%	-2%	1%	3%

Source: Company data, CMBIS estimates

Figure 5: P&amp;L forecast

RMB mn	FY18	FY19	FY20E	FY21E	FY22E
<b>Revenue</b>	106,595	97,401	95,476	96,567	99,934
...YoY	14.91%	-8.63%	-1.98%	1.14%	3.49%
Cost of sales	-85,082	-80,485	-78,768	-79,185	-81,946
<b>Gross profit</b>	21,513	16,917	16,708	17,382	17,988
GPM (%)	20.18%	17.37%	17.50%	18.00%	18.00%
...YoY	19.64%	-21.37%	-1.23%	4.03%	3.49%
Selling Exp	-4,523	-4,332	-4,149	-4,202	-4,354
...% of rev	-4.24%	-4.45%	-4.35%	-4.35%	-4.36%
Admin Exp	-3,777	-5,122	-4,202	-4,145	-4,182
...% of rev	-3.54%	-5.26%	-4.40%	-4.29%	-4.18%
<b>EBIT</b>	14,880	9,528	10,467	11,266	11,864
EBIT Margin (%)	13.96%	9.78%	10.96%	11.67%	11.87%
...YoY	16.17%	-35.97%	9.86%	-12.41%	13.34%
<b>Net profit</b>	12,553	8,190	8,702	9,308	9,737
NPM (%)	11.78%	8.41%	9.11%	9.64%	9.74%
...YoY	18.05%	-34.76%	6.26%	6.96%	4.60%

Source: Company data, CMBIS estimates

## Financial Summary

Income statement						Cash flow summary					
YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E	YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Revenue</b>	106,595	97,401	95,476	96,567	99,934	<b>Net income</b>	12,553	8,190	8,702	9,308	9,737
Automobiles	102,651	91,843	88,114	87,465	88,659	D&A	2,213	2,213	2,734	3,154	3,653
Parts and components	3,944	5,130	6,926	8,657	10,821	Change in working capital	3,754	3,180	(879)	(505)	657
Licensing of IP	0	428	437	445	454	Others	(4,595)	(1,045)	(1,907)	1,753	90
Cost of sales	(85,082)	(80,485)	(78,768)	(79,185)	(81,946)	<b>Net cash from operating</b>	13,925	12,538	8,651	13,710	14,137
<b>Gross profit</b>	21,513	16,917	16,708	17,382	17,988	Capex & investments	(17,179)	(11,507)	(11,275)	(11,529)	(12,505)
S&D expenses	(4,523)	(4,332)	(4,149)	(4,202)	(4,354)	Associated companies	(35)	(58)	(45)	(49)	(54)
Admin expenses	(3,777)	(5,122)	(4,202)	(4,145)	(4,182)	Others	5,895	774	-	-	1
Share-based payments	(15)	(5)	(13)	(15)	(20)	<b>Net cash from investing</b>	(11,319)	(10,791)	(11,320)	(11,578)	(12,558)
Finance expenses	79	108	(142)	(209)	(274)	Equity raised	0	-	-	-	-
PL of JVs	505	626	880	958	1,043	Change of Debts	2,127	(311)	488	458	457
PL of Associates	(60)	38	49	64	83	Dividend paid	(2,767)	(2,382)	(1,932)	(2,067)	(2,162)
Other income	1,237	1,225	1,194	1,224	1,305	Others	334	4,456	-	-	1
Other expense	0	0	0	0	0	<b>Net cash from financing</b>	(306)	1,763	(1,444)	(1,609)	(1,704)
Gain on disposal of	0	183	0	0	0	<b>Net change in cash</b>	2,300	3,510	(4,114)	523	(125)
<b>Profit before income tax</b>	14,959	9,636	10,325	11,057	11,590	Cash at the beginning	13,451	15,757	19,322	15,208	15,731
Income tax expense	(2,285)	(1,375)	(1,543)	(1,661)	(1,761)	Exchange difference	6	55	-	-	-
<b>Profit for the year</b>	12,674	8,261	8,783	9,395	9,829	<b>Cash at the end</b>	15,757	19,322	15,208	15,731	15,606
Less: MI	121	72	80	87	92	Less: pledged cash	19	40	19	19	19
<b>Net Profit</b>	12,553	8,190	8,702	9,308	9,737						

Balance sheet						Key ratios					
YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E	YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Non-current assets</b>	48,676	57,914	67,872	77,456	87,623	<b>Profit mix (%)</b>					
Fixed asset	23,423	27,070	37,550	44,287	51,853	Automobiles	96%	94%	94%	92%	91%
Intangible assets	14,993	17,598	16,835	17,301	17,720	Parts and components	4%	5%	6%	7%	9%
Interest in JV/associate	6,322	8,837	8,268	9,401	10,638	Licensing of IP	0%	0%	0%	0%	0%
Other non-current assets	3,937	4,408	5,219	6,467	7,413	<b>Total</b>	100%	100%	100%	100%	100%
<b>Current assets</b>	42,785	50,014	38,427	39,089	39,794	<b>P&amp;L ratios (%)</b>					
Cash	15,757	19,322	15,208	15,731	15,606	Gross profit margin	20%	17%	19%	18%	18%
Account receivable	22,865	25,845	18,754	18,854	19,511	Pre-tax margin	14%	10%	13%	11%	11%
Inventory	4,097	4,821	4,376	4,399	4,553	Net margin	12%	8%	11%	9%	10%
Other current assets	67	27	89	106	125	Effective tax rate	15%	14%	16%	15%	15%
<b>Current liabilities</b>	43,760	48,526	43,163	45,675	48,403	<b>Balance sheet ratios</b>					
Borrowings	1,375	-	2,985	5,273	6,586	Current ratio (x)	0.98	1.03	0.94	0.89	0.86
Account payables	41,438	47,873	39,384	39,593	40,973	Quick ratio (x)	0.88	0.93	0.85	0.79	0.76
Other payables	-0	37	0	0	-0	Cash ratio (x)	0.36	0.40	0.38	0.35	0.34
Tax payables	947	616	795	809	844	Inventory days	17.58	21.86	18.25	20.28	20.28
<b>Non-current liabilities</b>	2,326	4,477	2,484	2,904	3,397	Account payable days	177.77	217.11	182.50	182.50	182.50
Borrowings	2,048	2,060	2,233	2,644	3,113	Account receivable days	78.29	96.85	91.25	86.90	86.90
Provisions	-	-	-	-	-	Total debt / total equity ratio	1.02	0.97	0.83	0.75	0.71
Deferred income tax	278	301	251	260	285	Net debt / equity ratio (%)	67%	61%	53%	50%	48%
Others	-	2,115	-	-	-	<b>Returns (%)</b>					
<b>Total net assets</b>	45,375	54,924	60,653	67,966	75,616	ROE	32%	16%	22%	15%	15%
<b>Minority Interest</b>	431	489	601	673	749	ROA	17%	10%	14%	10%	10%
<b>Shareholders' equity</b>	44,944	54,436	60,052	67,293	74,868	<b>Per share</b>					
						EPS (Rmb)	1.40	0.90	1.19	0.96	1.04
						DPS (Rmb)	0.31	0.23	0.27	0.21	0.23
						BVPS (Rmb)	5.47	6.49	6.48	7.30	8.18

Source: Company data, CMBIS Estimate

# Disclosures & Disclaimers

## Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

## CMBIS Ratings

**BUY** : Stock with potential return of over 15% over next 12 months  
**HOLD** : Stock with potential return of +15% to -10% over next 12 months  
**SELL** : Stock with potential loss of over 10% over next 12 months  
**NOT RATED** : Stock is not rated by CMBIS

**OUTPERFORM** : Industry expected to outperform the relevant broad market benchmark over next 12 months  
**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

## CMB International Securities Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

**CMB International Securities Limited ("CMBIS") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)**

## Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIS does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIS recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIS, solely for the purpose of supplying information to the clients of CMBIS or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIS nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIS has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIS provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIS may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIS may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIS may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIS does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIS may have a conflict of interest that could affect the objectivity of this report and CMBIS will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIS.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIS.

For recipients of this document in the United States

This report is intended for distribution in the United States to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this research report by its acceptance hereof represents and agrees that it shall not distribute or provide this research report to any other person.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.