

GAC Group (2238 HK)

Impairment as always; eyes on Aion's upmarket

GAC's 4Q22 earnings missed our prior forecast on impairment. The bright spot was its homegrown brands' GPM improvement and cost reduction efforts. We are still of the view that GAC's valuation is attractive and it is a defensive player in a volatile market.

- 4Q22 net profit miss on impairment, equity income.** GAC's 4Q22 net profit of RMB 6mn was significantly lower than our prior forecast of RMB 1.6bn, mainly due to its impairment on GAC Mitsubishi's goodwill and GAC FCA's receivables. Its 4Q22 net profit would have been about RMB 1.6bn without such impairment. Equity income from joint ventures and associates in 4Q22 fell 41% YoY to RMB 2bn, or RMB 0.9bn lower than we had expected. Gross margin and SG&A in 4Q22 were better than our prior estimates.
- We revise up Aion's FY23E sales volume forecast by 8%.** We raise our FY23E sales volume forecast for Aion by 8% to 0.34mn units, still lower than management guidance of 0.5-0.6mn units, given the currently high inventory level and new model rollouts only in 2H23E. We project Aion's GPM in FY23E to improve slightly YoY amid greater economies of scale and more premium models, although its FY22 GPM trailed leading NEV makers in China.
- We cut FY23E equity income forecast by 15%.** GAC's FY22 equity income miss was mainly from GAC Honda and its margin decline could persist in FY23E, in our view. We also expect GAC Toyota's sales volume to fall 2% in FY23E with a lower NPM. Therefore, we project GAC's equity income to fall 20% YoY in FY23E, which also accounts for further potential impairment. Accordingly, we cut GAC's FY23E NP by 23% to RMB 7.1bn. We project net loss for homegrown brands to narrow from RMB 4.8bn in FY22 to RMB 4.2bn in FY23E.
- Valuation/Key risks.** We use sum-of-the-parts (SOTP) valuation to factor in Aion's planned spin-off. We value Aion HK\$ 3.8 per share, based on 1.0x (unchanged) our revised FY23E P/S. We value HK\$ 3.7 per share for JVs and associates based on 3.0x (unchanged) our revised FY23E P/E, which is equivalent to a conservative dividend discount model assuming equity income to decline YoY significantly from FY25E and become 0 in FY30E. We value 0 for Trumpchi. Accordingly, we maintain BUY rating and lower target price from HK\$ 8.00 to HK\$ 7.50. Key risks to our rating and target price include lower sales volume and margins especially for Aion and a sector de-rating.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22A	FY23E	FY24E
Revenue (RMB mn)	63,157	75,676	110,006	113,470	120,529
YoY growth (%)	5.8	19.8	45.4	3.1	6.2
Net income (RMB mn)	5,964	7,511	7,982	7,051	8,070
EPS (RMB)	0.58	0.73	0.77	0.67	0.77
YoY growth (%)	(9.9)	25.9	6.3	(11.7)	14.5
P/E (x)	7.6	5.7	5.6	6.5	5.7
P/B (x)	0.5	0.5	0.5	0.4	0.4
Yield (%)	2.7	3.6	4.2	3.2	3.6
ROE (%)	7.2	8.6	8.5	7.0	7.5
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$ 7.50
(Previous TP)	HK\$ 8.00)
Up/Downside	+50.3%
Current Price	HK\$ 4.99

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Stock Data

Mkt Cap (HK\$ mn)	52,310
Avg 3 mths t/o (HK\$ mn)	103
52w High/Low (HK\$)	8.18/4.63
Total Issued Shares (mn)	10,483
Source: Bloomberg	

Shareholding Structure

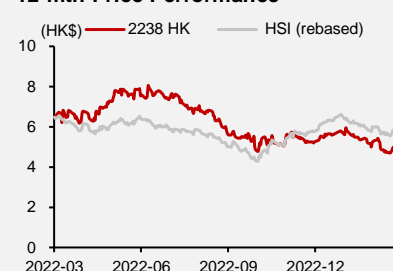
Guangzhou Automobile	52.5%
Industry	
Others	47.5%
Source: HKEx	

Share Performance

	Absolute	Relative
1-mth	-0.2%	-2.8%
3-mth	-5.1%	-7.8%
6-mth	-10.9%	-28.8%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PricewaterhouseCoopers

Related Reports

["GAC Group – GAC Group \(2238 HK\) – We expect 4Q22 NP to fall on equity income" – 31 Jan 2023](#)

Figure 1: Quarterly results

RMB mn	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	YoY	QoQ
Sales volume (units)	496,560	529,945	467,221	650,661	608,167	541,759	675,024	608,761	-6.4%	-9.8%
Revenue	16,024	18,548	20,941	20,163	23,268	25,421	31,678	29,639	47.0%	-6.4%
Gross profit	600	1,030	1,327	1,631	1,025	1,160	1,470	2,320	42.2%	57.8%
R&D expenses	(260)	(263)	(237)	(228)	(241)	(319)	(388)	(760)	233.2%	95.9%
SG&A expenses	(1,518)	(2,154)	(2,185)	(2,417)	(2,110)	(2,287)	(2,324)	(1,676)	-30.6%	-27.9%
Investment Income	3,443	3,060	1,781	3,530	4,227	4,271	3,770	2,049	-41.9%	-45.6%
Operating profit	2,279	1,937	978	1,951	2,854	2,883	2,102	(383)	N/A	N/A
Net profit	2,366	1,971	947	2,051	3,009	2,742	2,312	6	-99.7%	-99.7%
Gross margin	3.7%	5.6%	6.3%	8.1%	4.4%	4.6%	4.6%	7.8%	-0.3 ppt	3.2 ppt
Operating margin	14.2%	10.4%	4.7%	9.7%	12.3%	11.3%	6.6%	-1.3%	-11.0 ppt	-7.9 ppt
Net margin	14.8%	10.6%	4.5%	10.2%	12.9%	10.8%	7.3%	0.0%	-10.2 ppt	-7.3 ppt

Source: Company data, CMBIGM

Figure 2: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY22A	FY23E	FY24E	FY22E	FY23E	FY24E	FY22A	FY23E	FY24E
Revenue	110,006	113,470	120,529	111,911	113,076	113,722	-1.7%	0.3%	6.0%
Gross profit	4,456	4,646	7,077	5,180	7,526	9,696	-14.0%	-38.3%	-27.0%
Operating profit	(6,668)	(4,350)	(2,592)	(5,286)	(3,981)	(1,855)	N/A	N/A	N/A
Net profit	7,982	7,051	8,070	9,691	9,193	10,491	-17.6%	-23.3%	-23.1%
Gross margin	4.1%	4.1%	5.9%	4.6%	6.7%	8.5%	-0.6 ppt	-2.6 ppt	-2.7 ppt
Operating margin	-6.1%	-3.8%	-2.2%	-4.7%	-3.5%	-1.6%	-1.3 ppt	-0.3 ppt	-0.5 ppt
Net margin	7.3%	6.2%	6.7%	8.7%	8.1%	9.2%	-1.4 ppt	-1.9 ppt	-2.5 ppt

Source: CMBIGM estimates

Figure 3: CMBI estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY22A	FY23E	FY24E	FY22E	FY23E	FY24E	FY22A	FY23E	FY24E
Revenue	110,006	113,470	120,529	104,048	123,269	145,831	5.7%	-7.9%	-17.4%
Gross profit	4,456	4,646	7,077	5,993	7,929	11,726	-25.6%	-41.4%	-39.6%
Operating profit	(6,668)	(4,350)	(2,592)	(4,856)	(4,454)	475	N/A	N/A	N/A
Net profit	7,982	7,051	8,070	10,010	11,254	12,809	-20.3%	-37.3%	-37.0%
Gross margin	4.1%	4.1%	5.9%	5.8%	6.4%	8.0%	-1.7 ppt	-2.3 ppt	-2.2 ppt
Operating margin	-6.1%	-3.8%	-2.2%	-4.7%	-3.6%	0.3%	-1.4 ppt	-0.2 ppt	-2.5 ppt
Net margin	7.3%	6.2%	6.7%	9.6%	9.1%	8.8%	-2.4 ppt	-2.9 ppt	-2.1 ppt

Source: Bloomberg, CMBIGM estimates

Figure 4: SOTP valuation

GAC (2238 HK)	FY23E (RMB mn)	Target P/E Multiple	Target P/S Multiple	Est. Shareholding	Target Market Cap (RMB mn)	Target Price (HK\$)
Estimated NEV Revenue	45,450	-	1.0x	75%	34,088	3.8
Estimated Share of Profits of Joint Ventures & Associates	11,263	3.0x	-	-	33,789	3.7
SOTP					67,877	7.5

Source: CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22A	FY23E	FY24E
Revenue	63,157	75,676	110,006	113,470	120,529
Cost of sales	(60,861)	(71,777)	(105,550)	(108,824)	(113,452)
Gross profit	2,296	3,899	4,456	4,646	7,077
Selling exp.	(3,641)	(4,340)	(4,228)	(4,384)	(4,710)
Admin exp.	(3,850)	(4,556)	(5,487)	(5,793)	(6,140)
Other gains	1,629	1,371	(1,409)	1,181	1,181
Operating profit	(3,567)	(3,626)	(6,668)	(4,350)	(2,592)
Net finance costs	(312)	(367)	(21)	8	43
Profit share of asso.&JVs	9,571	11,404	14,065	11,263	10,543
Pre-tax profit	5,692	7,412	7,376	6,921	7,994
Tax	356	154	536	87	51
Minority interests	(84)	(55)	71	43	25
Net profit	5,964	7,511	7,982	7,051	8,070

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Profit before taxation	5,692	7,412	7,376	6,921	7,994
Depreciation/amortization	5,110	5,719	7,028	7,705	8,639
Change in working capital	(3,973)	(8,134)	4,536	(2,049)	(3,187)
Others	(10,501)	(11,488)	(12,163)	(10,208)	(9,482)
Net cash from operating	(3,671)	(6,491)	6,778	2,369	3,964
Capex	(6,586)	(6,243)	(10,700)	(9,100)	(9,200)
Others	3,647	13,478	13,531	10,793	9,731
Net cash from investing	(2,938)	7,235	2,831	1,693	531
Net borrowings	1,105	2,657	(4,43)	1,540	(34)
Dividend paid	(1,936)	(2,135)	(2,343)	(2,399)	(2,242)
Others	(347)	255	(228)	(234)	(226)
Net cash from financing	(1,178)	777	(7,008)	(1,093)	(2,502)
Net change in cash	(7,787)	1,520	2,601	2,968	1,993
Cash at beginning of the year	23,60	15,79	17,23	19,83	22,80
Exchange difference	(27)	(76)	-	-	-
Cash at the end of the year	15,791	17,235	19,836	22,804	24,797

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Current assets	56,643	61,192	78,305	83,393	89,243
Cash & equivalents	15,791	17,235	19,836	22,804	24,797
Account receivables	19,616	25,110	36,166	37,927	41,277
Inventories	6,622	8,111	11,567	11,926	12,433
Other current assets	14,614	10,736	10,736	10,736	10,736
Non-current assets	86,218	93,059	97,555	99,206	100,224
PP&E	20,073	19,476	20,742	19,644	18,392
Intangibles	12,259	13,581	15,301	17,342	18,614
Deferred income tax	2,124	2,834	2,834	2,834	2,834
Other non-current assets	51,762	57,168	58,678	59,387	60,384
Total assets	142,861	154,251	175,860	182,599	189,466
Current liabilities	42,543	49,133	63,585	65,672	66,008
Bank borrowings	6,504	9,889	4,899	6,661	6,056
Account payables	35,464	38,490	57,836	58,139	59,057
Tax payable	103	202	202	202	202
Other current liabilities	472	551	649	670	693
Non-current liabilities	13,604	12,469	11,415	10,450	10,508
Bank borrowings	8,473	7,527	5,927	4,927	4,927
Government Grants	2,556	2,196	2,066	1,956	1,863
Other non-current liabilities	2,575	2,747	3,422	3,567	3,718
Total liabilities	56,147	61,602	75,000	76,122	76,516
Share capital	10,350	10,371	10,371	10,452	10,514
Reserves	74,025	79,943	88,161	93,700	100,115
Non-controlling interests	2,339	2,335	2,328	2,324	2,322
Shareholders' equity	84,375	90,313	98,532	104,153	110,628
Total equity and liabilities	142,861	154,251	175,860	182,599	189,466

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
Automobile	60.1	65.0	71.5	73.9	75.2
Parts and services	35.9	32.1	25.2	22.6	21.3
Finance and others	4.0	2.9	3.2	3.5	3.4
Growth (%)					
Revenue	5.8	19.8	45.4	3.1	6.2
Gross profit	(9.0)	69.8	14.3	4.3	52.3
Operating profit	29.1	1.6	83.9	(34.8)	(40.4)
Net profit	(9.9)	25.9	6.3	(11.7)	14.5
Profit & loss ratio (%)					
Gross margin	3.6	5.2	4.1	4.1	5.9
Operating margin	(5.6)	(4.8)	(6.1)	(3.8)	(2.2)
Net profit margin	9.4	9.9	7.3	6.2	6.7
Balance sheet ratio					
Net cash/total equity (x)	0.1	0.1	0.1	0.2	0.2
Current ratio (x)	1.3	1.2	1.2	1.3	1.4
Receivable turnover days	113	121	120	122	125
Inventory turnover days	40	41	40	40	40
Payable turnover days	213	196	200	195	190
Profitability (%)					
ROE	7.2	8.6	8.5	7.0	7.5
ROA	4.3	5.1	4.8	3.9	4.3
Per share data (RMB)					
EPS	0.58	0.73	0.77	0.67	0.77
DPS	0.18	0.22	0.24	0.21	0.24

Source: Company data, CMBIGM estimates

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