

# Apollo Future Mobility (860 HK)

## Foundation laid for riding the wave of e-mobility

Apollo FMG has been restructuring from a jewelry and watch retailer to an automotive player through M&As since 2016. In 2021, WM Motor became its largest shareholder. Leveraging its current teams including hypercar Apollo Automobil and engineering services outsourcing (ESO), along with WM Motor's manufacturing resources, the company plans to launch luxury electric vehicles (EVs) in 2024. Based on our recent meeting with the new management, it will leverage its vehicles to focus on consumers, providing unique consumer experience throughout the entire vehicle lifespan. It would be interesting to watch the company's future development although the management did not disclose the details. The company's current businesses are listed below.

- Automotive manufacturing: Aim to provide consumer experience beyond cars.** The company acquired Apollo Automobil in 2020 and sold 10 race-track models priced HK\$ 20mn each. We are of the view that such hypercar business could showcase its state-of-the-art technologies and back up the company's upcoming luxury EV manufacturing. Priced at around RMB 1mn, the management expects the launch time to be around 2024 with an annual sales volume target of around a few tens of thousands of units.
- ESO: to serve both external and internal clients.** Apart from serving external clients with existing sizable project pipeline, the new management also positions its ESO team as in-house R&D resources to provide consumers with unique experience, with its German team in charge of luxurious design, Japanese team for e-powertrain and Chinese team for digitalization.
- Investments in Divergent and EV Power.** Apollo FMG holds about 28% of EV Power, an EV charging operator in China, and 17% in Divergent, a US-based 3D metal printing start-up. Both investments combined are valued at HK\$ 2.5bn, or equivalent to 82% of Apollo FMG's current market cap, based on their latest rounds of financing.
- H1 FY9/22 net profit turned to positive territory.** Apollo FMG's revenue in H1 FY9/22 rose 61% HoH amid the sequential increase in all businesses (including 895% for hypercar, 59% for licensing income and 238% for ESO). Gross margin widened by 4.4 ppts to 28.9%, aided by ESO (about 35% gross margin) and licensing (100% gross margin). Legacy business only accounted for 63% of Apollo FMG's revenue and 25% of its gross profit.

### Earnings Summary

(YE 30 Sep)	FY19A	FY20A	FY21A
Revenue (HK\$ mn)	536	358	529
YoY growth (%)	(25.2)	(33.3)	47.8
Net income (HK\$ mn)	(605)	(345)	(350)
EPS (HK\$)	(0.08)	(0.04)	(0.04)
YoY growth (%)	N/A	N/A	N/A
P/E (x)	N/A	N/A	N/A
P/B (x)	0.8	0.8	0.8
Yield (%)	N/A	N/A	N/A
ROE (%)	(15.4)	(9.2)	(9.6)
Net gearing (%)	Net cash	0.2	0.6

Source: Company data, Bloomberg, CMBIGM

**NOT RATED**

Current Price

HK\$ 0.34

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#### Stock Data

Mkt Cap (HK\$ mn)	2,768
Avg 3 mths t/o (HK\$ mn)	2
52w High/Low (HK\$)	0.63/0.31
Total Issued Shares (mn)	8,264
Source: Bloomberg	

#### Shareholding Structure

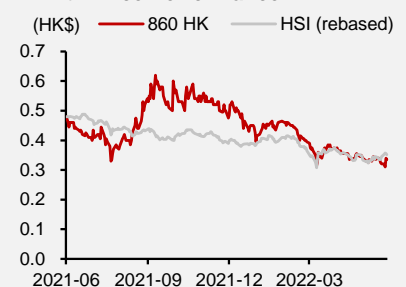
WM Motor Holdings	28.5%
Ho King Man Justin	11.4%
Others	59.8%
Source: HKEx	

#### Share Performance

	Absolute	Relative
1-mth	-2.9%	-2.8%
3-mth	-16.3%	-10.6%
6-mth	-33.0%	-21.6%

Source: Bloomberg

#### 12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

## Company Overview

### Foundation has been laid for riding the wave of e-mobility

Apollo FMG has been restructuring from a jewelry and watch retailer to an automotive player through M&As since 2016, after the family of former Chief Executive of Macau Edmund Ho became the largest shareholder of the company. Ocean Dynasty controlled by Li Ka-shing was the second largest shareholder in 2017. At the end of 2021, WM Motor became the company's largest shareholder with 28.5% equity interest via an array of share exchange arrangement (including with Li Ka-shing). The Ho family still holds about 13.2% of Apollo FMG. Li Ka-shing holds about 5.9% of equity interest.

During Jan-Mar 2022, the company appointed Mr. Freeman Hui Shen, the founder of WM Motor, as the Co-Chairman of the Board, Mr. Zhenggang Qi as the general manager, Mr. Joseph Lee as the Vice Chairman of the Board, Ms. Enya Zheng as the Senior Vice President, Finance. Their rich experience in the automotive industry could bring more auto business opportunities to Apollo FMG. Prior to Apollo FMG, Mr. Qi worked at GAC NIO, WM Motor, Fiat (now as Stellantis (STLA NV, NR)), BorgWarner and Volkswagen (VOW GR, NR).

We had a meeting with the new management recently for the company's latest strategy update. We are of the view that the company has been exploring new opportunities brought by e-mobility, on top of continuing its existing businesses. Unlike those EV start-ups in China that attempt to re-define vehicles, the management describes that its focus is not on vehicles, but on consumers by leveraging its vehicles. It would be quite interesting to watch the company's future development although the management did not disclose further details.

In this report, we are going to elaborate Apollo FMG's existing businesses in detail, which should be building blocks for its future innovation. We are of the view that WM Motor's manufacturing resources could at least accelerate Apollo FMG's vehicle mass production, which is the base for the e-mobility innovation.

## Automotive Manufacturing

### 1) Hypercar Apollo: Showcasing state-of-the-art technologies

The company acquired 86.06% of Apollo Automobil, a hypercar manufacturer, in 2020, from a Hong Kong consortium Ideal Team Ventures. It has sold all 10 *Apollo Intensa Emozione (IE)* models, with two delivered in FY9/20, two in FY9/21, two in H1 FY9/22 and the remaining four to be delivered in H2 FY9/22. The race-ready *Apollo IE* is priced at around HK\$ 20mn per unit.

The company showcased the next-generation concept car coded *Project EVO* in Nov 2021. The official launch could start once all the *Apollo IE* are shipped. We expect its total sales volume of at least 10 units given its similar price tag as the *Apollo IE*.

Although the management aims to make its hypercar business profitable as R&D costs per car diminish when sales volume increases, we do not view Apollo FMG's hypercar business as pivotal or a profit driver, given its low sales volume in nature. Instead, the capability of making hypercars could back up the company's other businesses, such as its upcoming EV manufacturing.

Figure 1: Apollo IE



Source: Company data, CMBIGM

Figure 2: Apollo Project EVO



Source: Company data, CMBIGM

## 2) Luxury EVs: Leveraging WM Motor's manufacturing capabilities

In Nov 2021, a four-seater *Apollo EVision S* concept car was premiered in China International Import Expo. Now with WM Motor's help, it is much easier for the company to start mass production of luxury EVs in China. The first model is likely to be based on the *Apollo EVision S* concept and be priced at around RMB 1mn. The management expects the launch time to be around 2024 with an annual sales volume target of around a few tens of thousands of units.

Figure 3: Apollo EVision S



Source: Company data, CMBIGM

The management aims to provide luxurious experience to consumers by combining the expertise from different teams around the globe: its German team for materials and design, its Japanese team for e-powertrain technologies and its Chinese team for digitalization. The management believes that the current vehicle's digital experience in China is not integrated enough. An integrated digital experience should be designed from the very beginning and more aggressive in the management's view.

## ESO: To serve both external and internal clients

Apollo FMG acquired GLM in Japan in 2017 and Ideenion in Germany in 2021 to form its ESO team, or Apollo Advanced Technologies (AAT), providing a variety of engineering services outsourcing including prototyping, exterior and interior design, powertrain and chassis lightweighting for new-model development.

Ideenion has 60+ engineers and generated an annual revenue of around HK\$ 160mn prior to COVID-19 with a net margin corridor of 20-25%. Ideenion claimed a pipeline of projects totaled EUR 24.45mn (HK\$ 206mn) as of the beginning of 2021, most of which have been delayed due to COVID-19. Ideenion works closely with Volkswagen Group including Audi, VW, Porsche and Lamborghini and has also developed components for EV start-ups such as NIO (NIO US, BUY) and Lucid Group (LCID US, NR).

GLM used to design its own EV models (e.g. the *Tommykaira ZZ*) and provide platform engineering services for other OEMs. It has gone through restructuring to better fit into Apollo FMG's overall business scope. It has also been developing 800V SiC inverter system.

Another example of AAT's research capabilities to generate revenue is through licensing. In May 2020, Apollo FMG announced a three-year deal that it will license its vehicle platform to De Tomaso, an Italian supercar brand, with at least 30 units by FY9/21 and at least another 70 units by FY9/22. Each unit is priced at US\$ 0.1mn and the total minimum license fee would be US\$ 10mn (HK\$ 78mn). The per-unit fee for the 101<sup>st</sup> to 200<sup>th</sup> units would be US\$ 0.05mn (HK\$ 0.4mn) and further reduced to US\$ 0.03mn (HK\$ 0.2mn) afterwards. In H2 FY9/21 and H1 FY9/22, such licensing generated about HK\$ 39mn and HK\$ 62mn, respectively.

While AAT continues to serve its external clients with its existing project pipeline, the new management also positions AAT as an in-house R&D center to support its luxury EV business, as noted in the previous paragraphs, with each team focusing on different aspects of the car. Such strategy could bring unique features for Apollo FMG's upcoming luxury EVs on the paper, while the execution with right incentive schemes to make every team work efficiently is crucial, in our view. The Chinese team in charge of the digitalization features may have the most difficult task to provide demanding Chinese consumers with unique experience throughout the entire vehicle lifespan.

## Investments in Divergent and EV Power

### 1) Investment in EV Power (EV charging operator in China)

Apollo FMG's investments in EV Power include 7.9% of ordinary shares categorized as an associate (because such stakes are entitled to 32.7% voting power), preferred shares and a call option valued at about HK\$ 482mn as of FY9/21 end, categorized as financial assets at fair value through profit or loss. According to Apollo FMG, it now holds about 28% of EV Power.

As of Apr 2022, EV Power had about 36,500 public charging piles in China, the 8<sup>th</sup> largest EV charging operator in China, according to China Electric Vehicle Charging Infrastructure Promotion Alliance (EVCIPA). EV Power expects itself to turn profitable in 2022 and seeks offshore IPO opportunities. Should EV Power be valued at US\$ 600mn, Apollo FMG's investments are valued at about HK\$ 1.3bn, or 48% of Apollo FMG's current market cap.

### 2) Investment in Divergent (a US-based 3D metal printing start-up)

Apollo FMG's investments in Divergent were valued at about HK\$ 522mn as of FY9/21 end, including preferred shares and a convertible note, categorized as financial assets at fair

value through profit or loss. Divergent currently has two global OEM clients which may start to generate meaningful revenue from 2022. We view such investment as an option, should 3D printing technology gain popularity in the automotive industry. According to Apollo FMG's management, Divergent was valued at about US\$ 700mn in the latest round of financing and Apollo FMG holds about 17% stakes of it. In other words, Apollo FMG's investments in Divergent could be valued at about HK\$ 0.9bn now, or about 34% of Apollo FMG's current market cap.

In our view, there could be synergies between Apollo FMG's automotive manufacturing business and Divergent, as 3D printing could make some engineering work more efficient.

## Revenue breakdown by business

Apart from its legacy businesses, Apollo FMG's top-line revenue comprised of hypercar, licensing fee from De Tomaso, and ESO in the past 12 months, as illustrated in the table below.

**Figure 4: Apollo FMG's revenue breakdown**

HK\$ mn or specified otherwise	H1 FY9/21	H2 FY9/21	H1 FY9/22	YoY	HoH
<b>Revenue</b>	<b>241</b>	<b>287</b>	<b>463</b>	<b>92.2%</b>	<b>61.2%</b>
Hypercar	41	6	55	33.8%	894.6%
Licensing	-	39	62	N/A	59.4%
ESO	3	16	55	1,724.2%	238.4%
Legacy business	197	227	292	48.1%	28.5%
As % of revenue					
Hypercar	17.1%	1.9%	11.9%	-5.2 ppt	10.0 ppt
Licensing	0%	13.5%	13.4%	13.4 ppt	-0.1 ppt
ESO	1.2%	5.6%	11.8%	10.6 ppt	6.2 ppt
Legacy business	81.7%	78.9%	62.9%	-18.8 ppt	-16.0 ppt
<b>Gross profit</b>	<b>61</b>	<b>70</b>	<b>134</b>	<b>118.6%</b>	<b>90.1%</b>
Gross margin	25.4%	24.5%	28.9%	3.5 ppt	4.4 ppt
<b>Net profit / (loss)</b>	<b>(202)</b>	<b>(148)</b>	<b>6</b>	<b>N/A</b>	<b>N/A</b>

Source: Company data, CMBIGM

Apollo FMG turned profitable in H1 FY9/22 amid a 92% YoY growth in revenue and gross margin expansion. While the volatility of the hypercar's revenue is from the delivery timing, ESO revenue rose by 238% HoH to HK\$ 55mn in H1 FY9/22. Licensing income from De Tomaso also increased 59% HoH in H1 FY9/22.

Gross margin in H1 FY9/22 widened by 4.4 ppts HoH to 28.9%, as gross margin for the ESO business expanded to about 35%, along with rising income from the 100% gross-margin licensing business.

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