

GAC Group (2238 HK)

In-line 1Q24 earnings

GAC Group (GAC)'s 1Q24 results were largely in line with our prior estimates and we maintain our FY24E net profit forecast of RMB5.4bn. We are more conservative than management about Aion's sales volume and profitability, as we believe that Aion needs quality growth (brand upscale, overseas expansion etc.) in FY24E to lay out foundation for long-term development. We are of the view that Trumpchi's PHEV solid sales growth could be overlooked by investors. It appears to us that its margins could also be resilient.

- 1Q24 earnings in line.** GAC's 1Q24 revenue and GPM were 2% and 0.7ppt higher than our forecasts, respectively. Such beat was offset by its higher-than-expected SG&A expenses. Equity income of RMB1.8bn in 1Q24 was about RMB150mn lower than our estimates. Accordingly, GAC's net profit of RMB1.2bn in 1Q24 was about RMB166mn lower than our prior forecast. We estimate Aion's net loss (100% consolidated) in 1Q24 was about RMB100mn higher than our projection.
- Aion's profitability on track, Trumpchi's margins appear to be resilient.** Although the company targets sales volume of 0.65mn units and breakeven at net level for Aion in FY24E, we maintain our prior forecasts of 0.5mn units and net loss of RMB2.2bn at the 100% consolidated level in FY24E. We believe that brand upscale and overseas expansion could be more crucial than profitability this year. Trumpchi continued to make profit in 1Q24 despite the price war, according to management. It appears to us that Trumpchi PHEVs' GPM could be more resilient than expected. Management expects Trumpchi's net profit to rise substantially YoY in FY24E.
- Equity income to remain flat in FY24E without restructuring burden.** Equity income's slight miss in 1Q24 should come from GAC Toyota. We are of the view that the redesigned *Camry* and stimulus measures could help GAC Toyota stabilize its profitability for the remainder of the year. GAC Honda's net profit per vehicle in 1Q24 was at a similar level as that in FY23, which slightly exceeded our expectation. We maintain our FY24E equity income forecast of RMB8.3bn.
- Valuation/Key risks.** Accordingly, we maintain our FY24-25E NP forecasts. We have also added our FY26E estimates. We use sum-of-the-parts (SOTP) valuation to factor in Aion's planned spin-off. We value Aion at HK\$3.3 per share, based on 0.7x (unchanged) our average FY24-25E revenue estimates. We value HK\$2.2 per share for JVs and associates based on 3x our average FY24-25E EPS (see details in Figure 4). We maintain BUY rating and target price of HK\$5.50. 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)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	110,272	129,706	139,572	147,754	152,637
YoY growth (%)	45.7	17.6	7.6	5.9	3.3
Net profit (RMB mn)	7,978.4	4,428.8	5,405.8	4,835.1	5,028.4
YoY growth (%)	6.2	(44.5)	22.1	(10.6)	4.0
EPS (Reported) (RMB)	0.77	0.42	0.52	0.46	0.48
P/E (x)	3.9	7.1	5.8	6.5	6.3
P/B (x)	0.3	0.3	0.3	0.3	0.3
Yield (%)	8.1	5.0	5.3	4.7	4.9
ROE (%)	7.8	3.9	4.6	4.0	4.0
Net gearing (%)	(25.2)	(25.2)	(14.4)	(14.1)	(12.9)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$5.50
(Previous TP)	HK\$5.50
Up/Downside	69.2%
Current Price	HK\$3.25

China Auto

Ji SHI, CFA

(852) 3761 8728
shiji@cmbi.com.hk

Wenjing DOU, CFA

(852) 6939 4751
douwenjing@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	34,093.3
Avg 3 mths t/o (HK\$ mn)	45.5
52w High/Low (HK\$)	4.97/2.97
Total Issued Shares (mn)	10490.2

Source: FactSet

Shareholding Structure

Guangzhou Automobile Industry	52.5%
Others	47.5%

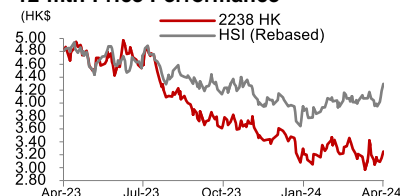
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	1.6%	-4.4%
3-mth	1.2%	-8.5%
6-mth	-10.7%	-13.8%

Source: FactSet

12-mth Price Performance



Source: FactSet

Related Reports

["GAC Group \(2238 HK\) - PHEV could be a new catalyst" - 5 Apr 2024](#)

Figure 1: Quarterly results

RMB mn	1Q23	2Q23	3Q23	4Q23	1Q24	YoY	QoQ
Sales volume (units)	539,875	623,029	629,559	710,711	409,698	-24.1%	-42.4%
Revenue	26,557	35,354	36,271	31,524	21,566	-18.8%	-31.6%
Gross profit	610	1,458	2,963	1,783	1,131	85.5%	-36.6%
R&D expenses	(397)	(464)	(450)	(423)	(375)	-5.5%	-11.2%
SG&A expenses	(1,883)	(2,528)	(2,809)	(3,276)	(2,301)	22.2%	-29.8%
Investment Income	2,955	2,494	1,833	1,379	1,844	-37.6%	33.7%
Operating profit	1,145	1,241	1,480	(583)	961	-16.1%	N/A
Net profit	1,538	1,428	1,545	(82)	1,216	-20.9%	N/A
Gross margin	2.3%	4.1%	8.2%	5.7%	5.2%	2.9 ppt	-0.4 ppt
Operating margin	4.3%	3.5%	4.1%	-1.8%	4.5%	0.1 ppt	6.3 ppt
Net margin	5.8%	4.0%	4.3%	-0.3%	5.6%	-0.2 ppt	5.9 ppt

Source: Company data, CMBIGM

Figure 2: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	139,572	147,754	152,637	139,572	147,754	N/A	0.0%	0.0%	N/A
Gross profit	7,210	9,998	12,766	7,210	9,998	N/A	0.0%	0.0%	N/A
Operating profit	(3,628)	(1,387)	695	(3,644)	(1,442)	N/A	N/A	N/A	N/A
Net profit	5,406	4,835	5,028	5,394	4,798	N/A	0.2%	0.8%	N/A
Gross margin	5.2%	6.8%	8.4%	5.2%	6.8%	N/A	0.0 ppt	0.0 ppt	N/A
Operating margin	-2.6%	-0.9%	0.5%	-2.6%	-1.0%	N/A	0.0 ppt	0.1 ppt	N/A
Net margin	3.9%	3.3%	3.3%	3.9%	3.2%	N/A	0.0 ppt	0.1 ppt	N/A

Source: CMBIGM estimates

Figure 3: CMBI estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	139,572	147,754	152,637	150,761	169,797	184,269	-7.4%	-13.0%	-17.2%
Gross profit	7,210	9,998	12,766	10,244	12,619	13,684	-29.6%	-20.8%	-6.7%
Operating profit	(3,628)	(1,387)	695	(3,188)	(2,872)	(2,805)	N/A	N/A	N/A
Net profit	5,406	4,835	5,028	5,686	6,163	6,940	-4.9%	-21.6%	-27.5%
Gross margin	5.2%	6.8%	8.4%	6.8%	7.4%	7.4%	-1.6 ppt	-0.7 ppt	0.9 ppt
Operating margin	-2.6%	-0.9%	0.5%	-2.1%	-1.7%	-1.5%	-0.5 ppt	0.8 ppt	2.0 ppt
Net margin	3.9%	3.3%	3.3%	3.8%	3.6%	3.8%	0.1 ppt	-0.4 ppt	-0.5 ppt

Source: Bloomberg, CMBIGM estimates

Figure 4: SOTP valuation

GAC (2238 HK)	FY24-25E Average (RMB bn)	Target P/E Multiple	Target P/S Multiple	Est. Shareholding	Target Market Cap (HK\$ bn)	Target Price (HK\$)
Estimated revenue of Aion	59	-	0.7x	77%	35	3.30
Estimated share of profits of joint ventures & associates	7	3x	-	-	24	2.20
SOTP					59	5.50

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	139,572	147,754	152,637
Cost of goods sold	(71,777)	(106,507)	(124,179)	(132,363)	(137,755)	(139,871)
Gross profit	3,899	3,765	5,527	7,210	9,998	12,766
Operating expenses	(7,782)	(10,601)	(10,659)	(11,179)	(11,693)	(12,378)
Selling expense	(4,340)	(3,923)	(6,196)	(6,419)	(6,712)	(7,089)
Admin expense	(4,556)	(5,115)	(5,657)	(5,860)	(6,130)	(6,468)
Others	1,114	(1,563)	1,194	1,100	1,150	1,180
Operating profit	(3,883)	(6,836)	(5,131)	(3,969)	(1,695)	388
Share of (losses)/profits of associates/JV	11,404	14,065	8,349	8,274	6,081	4,750
EBITDA	13,555	14,410	11,286	14,051	15,017	16,755
Depreciation	2,878	3,145	3,440	3,980	4,176	4,375
Other amortisation	2,840	3,545	3,855	4,975	5,745	6,515
EBIT	7,837	7,720	3,992	5,096	5,096	5,865
Interest income	316	491	774	790	709	727
Interest expense	(425)	(352)	(467)	(471)	(500)	(533)
Pre-tax profit	7,412	7,368	3,525	4,625	4,596	5,332
Income tax	154	536	215	292	134	(52)
After tax profit	7,566	7,904	3,740	4,917	4,730	5,280
Minority interest	(55)	75	689	488	106	(251)
Net profit	7,511	7,978	4,429	5,406	4,835	5,028
Gross dividends	2,297	2,516	1,573	1,676	1,499	1,559
BALANCE SHEET						
YE 31 Dec (RMB mn)						
Current assets	61,192	91,603	101,111	98,494	111,417	114,195
Cash & equivalents	17,235	34,222	39,522	29,670	31,678	32,686
Restricted cash	1,624	1,977	2,839	2,839	2,839	2,839
Account receivables	25,110	31,407	26,779	34,415	46,553	48,091
Inventories	8,111	12,362	16,720	16,319	15,096	15,328
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	117,451	117,134	115,533
PP&E	19,476	20,761	24,930	23,382	21,736	19,940
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	38,094	39,433	40,601
Intangibles	13,581	14,471	16,470	17,364	17,574	16,874
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	215,945	228,551	229,728
Current liabilities	49,133	56,718	77,194	69,093	76,614	72,052
Short-term borrowings	9,889	13,813	17,732	11,780	16,984	11,495
Account payables	38,490	42,099	58,263	56,209	58,499	59,397
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	18,930	20,962	23,016
Long-term borrowings	7,527	5,697	10,384	12,384	14,384	16,384
Other non-current liabilities	4,943	5,139	6,416	6,546	6,578	6,632
Total liabilities	61,602	67,554	93,995	88,023	97,576	95,067
Share capital	10,371	10,487	10,490	10,500	10,547	10,630
Retained earnings	50,597	56,067	57,967	61,905	65,107	68,621
Other reserves	29,345	46,750	47,317	47,406	47,394	47,314
Total shareholders equity	90,313	113,304	115,774	119,811	123,049	126,564
Minority interest	2,335	9,027	8,680	8,111	7,926	8,097
Total equity and liabilities	154,251	189,886	218,449	215,945	228,551	229,728

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	7,412	7,368	3,525	4,625	4,596	5,332
Depreciation & amortization	5,719	6,690	7,294	8,955	9,921	10,890
Tax paid	(320)	(338)	(358)	292	134	(52)
Change in working capital	(8,134)	(9,444)	2,073	(9,590)	(8,962)	(1,218)
Others	(11,167)	(10,914)	(7,930)	(6,973)	(4,858)	(3,390)
Net cash from operations	(6,491)	(6,638)	4,604	(2,691)	830	11,562
Investing						
Capital expenditure	(6,243)	(8,014)	(11,577)	(9,100)	(9,100)	(9,100)
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	8,290	5,642	4,482
Net cash from investing	7,235	(1,592)	(5,333)	(1,410)	(4,058)	(5,218)
Financing						
Dividend paid	(2,071)	(2,407)	(2,411)	(1,468)	(1,632)	(1,515)
Net borrowings	936	4,270	9,451	(3,952)	7,204	(3,490)
Proceeds from share issues	82	213	98	(2)	(14)	(18)
Others	1,829	23,104	(1,114)	(330)	(322)	(314)
Net cash from financing	777	25,181	6,025	(5,751)	5,236	(5,336)
Net change in cash						
Cash at the beginning of the year	15,791	17,235	34,222	39,522	29,670	31,678
Exchange difference	(76)	37	4	0	0	0
Cash at the end of the year	17,235	34,222	39,522	29,670	31,678	32,686
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	19.8%	45.7%	17.6%	7.6%	5.9%	3.3%
Gross profit	69.8%	(3.4%)	46.8%	30.4%	38.7%	27.7%
EBITDA	20.6%	6.3%	(21.7%)	24.5%	6.9%	11.6%
EBIT	27.8%	(1.5%)	(48.3%)	27.7%	(0.0%)	15.1%
Net profit	25.9%	6.2%	(44.5%)	22.1%	(10.6%)	4.0%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	5.2%	3.4%	4.3%	5.2%	6.8%	8.4%
Operating margin	(5.1%)	(6.2%)	(4.0%)	(2.8%)	(1.1%)	0.3%
EBITDA margin	17.9%	13.1%	8.7%	10.1%	10.2%	11.0%
Return on equity (ROE)	8.6%	7.8%	3.9%	4.6%	4.0%	4.0%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	(0.1)	(0.3)	(0.3)	(0.1)	(0.1)	(0.1)
Current ratio (x)	1.2	1.6	1.3	1.4	1.5	1.6
Receivable turnover days	121.1	104.0	75.4	90.0	115.0	115.0
Inventory turnover days	41.2	42.4	49.1	45.0	40.0	40.0
Payable turnover days	195.7	144.3	171.3	155.0	155.0	155.0
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	4.1	3.9	7.1	5.8	6.5	6.3
P/E (diluted)	4.2	3.9	7.1	5.9	6.6	6.4
P/B	0.3	0.3	0.3	0.3	0.3	0.3
P/CFPS	ns	ns	6.8	ns	38.1	2.8
Div yield (%)	7.4	8.1	5.0	5.3	4.7	4.9

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

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CMB International Global Markets Limited

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

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