

Geely (175 HK)

Official spin-off the BEV segment - Zeeker

Geely announced FY20 results, slightly below market expectations. In 2020, its top-line recorded RMB92bn, down 5% YoY. Net profit was RMB5.6bn (vs CMBI estimate of RMB7.2bn), down 32%YoY. The Company declared a dividend of RMB0.17, representing 29% of the payout ratio, higher than the historical average. We revised our TP to HK\$28.3 and reiterate the BUY rating.

- Operating deleverage erodes the bottom-line.** The sales volume in 2020 was 1.32 mn, down 3%YoY. Among them, the Geely brand reached 1.14mn(-7% YoY) while Lynk&Co sold 175K units(+37% YoY). GPM decreased by 1.4ppt to 16% given due to D&A growth and higher precious metal costs. The expenses ratio increased significantly due to 1) advertising expenses from the launch of new models and 2) the amortization of R&D. Together with the decline in sales, the Company's operating leverage was worsened in 2020. At the same time, Geely's products are at the end of the product cycle, having margin pressure in order to ensure market share.
- Several highlights are worth paying attention to.** Geely helps suppliers and dealers to reduce the financial burden in the context of COVID-19. In 2020, the accounts payable to the third party decreased by RMB3.2bn while the third party's advancement decreased by RMB2.4bn. Meanwhile, the Company's inventory decreased by RMB1.1bn. Supporting the upstream and downstream stakeholders would lay out the foundation for growth in 2021E. The Company also has various financing channels to access the capital market. In 2020, Geely raised about RMB6bn from share placement. By the end of 2020, the Company has RMB19bn cash on hand with a net cash position. The upcoming list of STAR boards will further enhance the capital strength of the company. In the revenue mix, the R&D support revenue and IP license revenue illustrate the Company's technology strength.
- Even though FY2020's performance was lower than expected, the new product cycle in 2021E is still worth looking forward to.** We lower our 2021E earnings forecast to RMB6.9 billion to reflect the revised expense ratio forecast. Events such as 1) more close cooperation with Volvo, 2) the spin-off of Zeeker, and 3) export of Lynk&Co to the Western Europe market will continue to support the market sentiment. Therefore, we adjust our TP to HK\$28.3 (based on the new 35.0x 2021E P/E) with an upside of 42.1% from the initial TP of HK\$35.0 (based on the initial 30.5x 2021E P/E). Reiterate BUY.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue (RMB mn)	106,595	97,401	92,114	102,985	110,796
YoY growth (%)	14.91%	-8.63%	-5.43%	11.80%	7.59%
Net income (RMB mn)	12,553	8,190	5,534	6,908	7,826
EPS (RMB)	1.40	0.90	0.58	0.71	0.80
YoY growth (%)	17%	-36%	-36%	25%	13%
Consensus EPS(RMB)	NA	NA	0.75	1.02	1.26
P/E (x)	12.48	19.36	30.14	24.63	21.69
P/B (x)	3.19	2.69	2.47	2.47	2.26
Yield (%)	1.77%	1.30%	0.98%	1.04%	1.18%
ROE (%)	31.62%	16.48%	9.37%	10.87%	11.78%
Net gearing (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$28.3
(Previous TP)	HK\$35.0)
Up/Downside	+42.1%
Current Price	HK\$19.9

China Auto Sector

Jack Bai

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

Stock Data

Mkt Cap (HK\$ mn)	195,392
Avg 3 mths t/o (HK\$ mn)	2,795.04
52w High/Low (HK\$)	36.45/10.19
Total Issued Shares (mn)	9,819

Source: Wind

Shareholding Structure

LI Shu Fu	41.20%
-----------	--------

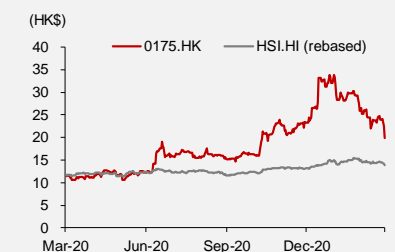
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-23.2%	-18.2%
3-mth	-14.8%	-19.5%
6-mth	30.1%	8.6%

Source: Wind

12-mth Price Performance



Source: Wind

Auditor: Grant Thornton

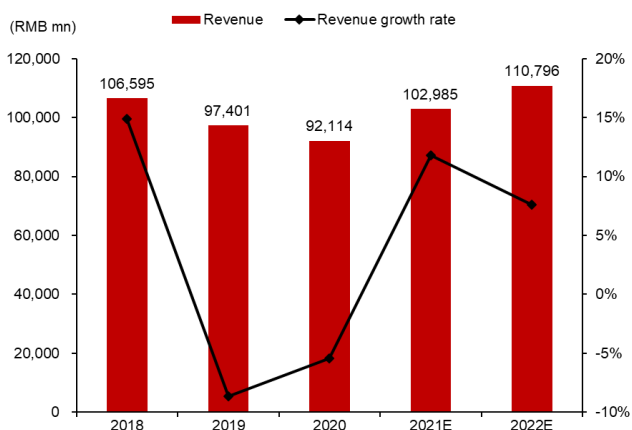
Related Reports

- "Geely (175 HK) – Valuation uplifts with a series of good news" – 14 Dec 2020
- "Geely (175 HK) – Upward Stretching led by Lynk&Co" – 18 Aug 2020
- "Geely (175 HK) – Volvo story outweighs the performance results" – 31 Mar 2020
- "Geely (175 HK) – Takeaway from Geely Investor Day" – 21 Oct 2019
- "Geely (175 HK) – Darkness before the dawn" – 4 Oct 2019

- New product cycle will support profit growth. In 2020, several new models will roll out to the market. Under the Geely brand, Xingyue L and the new generation of Emgrand will launch within the year. The first Lynk&Co model based on the SPA platform will roll out to the market. Geely and the parent company jointly build Zeeker, a smart BEV brand, which helps to integrate the resources under the holding company into the new brand. The first model is priced in the range of RMB300K to RMB500k and will debut in Apr. The Company set its sales target in 2021E at 1.53 mn units(+16%YoY), reflecting the confidence in the overall market and its new product cycle.

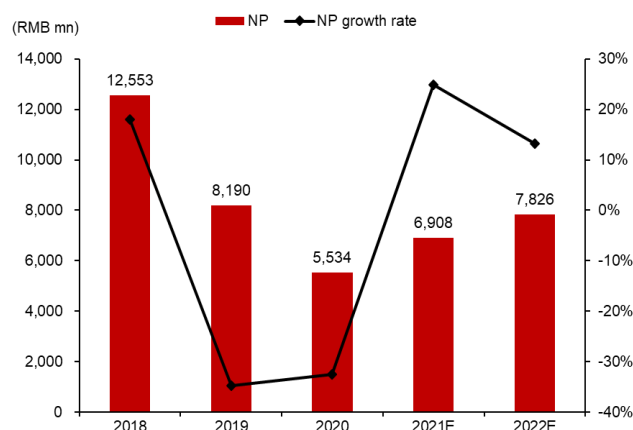
Focus chart

Figure 1: Revenue forecast



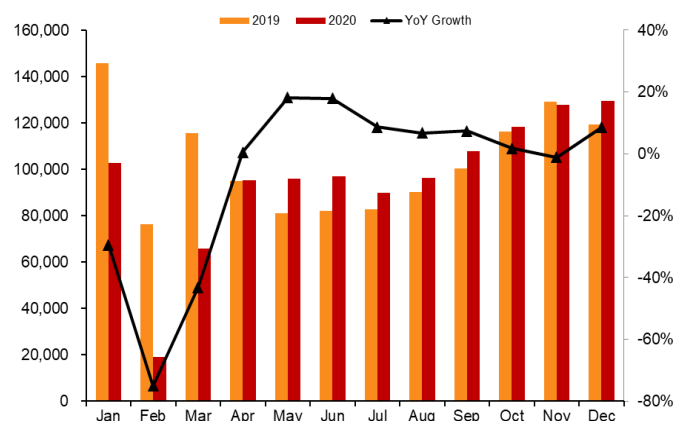
Source: Company data, CMBIS estimates

Figure 2: NP forecast



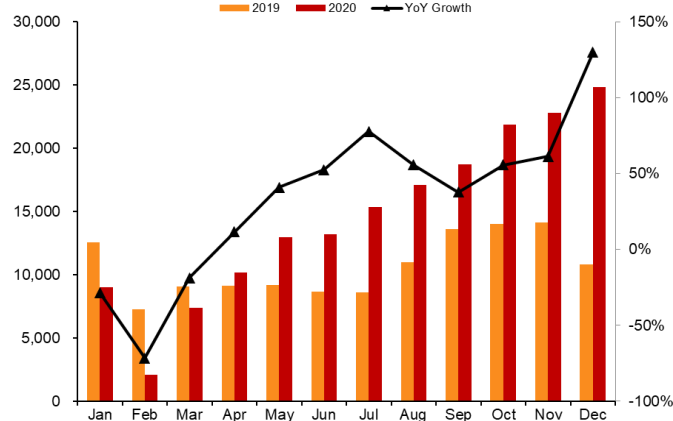
Source: Company data, CMBIS estimates

Figure 3: Geely brands



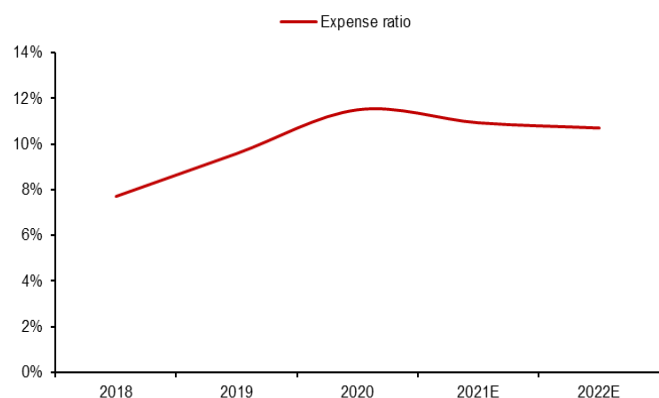
Source: Company data, CMBIS

Figure 4: Lynk&Co



Source: Company data, CMBIS

Figure 5: Expense ratio forecast



Source: Company data, CMBIS estimates

Figure 6: PE Band



Source: Bloomberg, CMBIS

Earnings Revision

Figure 7: Earnings revision

(RMB mn)	CMBIS		Consensus		Diff (%)	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	102,985	110,796	108,683	107,500	-5%	-4%
Gross profit	16,787	18,281	19,656	19,458	-15%	-14%
Net profit	6,908	7,826	10,231	11,298	-32%	-39%
EPS (RMB)	0.72	0.82	1.07	1.15	-32%	-37%
GPM	16.30%	16.50%	18.09%	18.10%	-1.8 ppt	-1.6 ppt
NPM	6.71%	7.06%	9.41%	10.51%	-2.7 ppt	-3.4 ppt

Source: CMBIS estimates

Figure 8: CMBIS estimates vs consensus

(RMB mn)	CMBIS		Consensus		Diff (%)	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	102,985	110,796	109,983	121,762	-6%	-9%
Gross profit	16,787	18,281	19,494	22,332	-14%	-18%
Net profit	6,908	7,826	9,593	11,796	-28%	-34%
EPS (RMB)	0.72	0.82	1.02	1.26	-29%	-35%
GPM	16.30%	16.50%	17.72%	18.34%	-1.4 ppt	-1.8 ppt
NPM	6.71%	7.06%	8.72%	9.69%	-2.0 ppt	-2.6 ppt

Source: Bloomberg, CMBIS estimates

Figure 9: P&L breakdown

(RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue	106,595	97,401	92,114	102,985	110,796
...YoY	14.91%	-8.63%	-5.43%	11.80%	7.59%
Cost of sales	(85,082)	(80,485)	(77,377)	(86,198)	(92,515)
Gross profit	21,513	16,917	14,737	16,787	18,281
GPM (%)	20.18%	17.37%	16.00%	16.30%	16.50%
...YoY	19.64%	-21.37%	-12.89%	13.91%	8.91%
Selling Exp	(4,523)	(4,332)	(5,053)	(5,355)	(5,540)
...% of rev	-4.24%	-4.45%	-5.49%	-5.20%	-5.00%
Admin Exp	(3,777)	(5,122)	(5,754)	(6,076)	(6,537)
...% of rev	-3.54%	-5.26%	-6.25%	-5.90%	-5.90%
EBIT	14,880	9,528	6,233	7,880	8,905
EBIT Margin (%)	13.96%	9.78%	6.77%	7.65%	8.04%
...YoY	16.17%	-35.97%	-34.59%	26.43%	13.00%
Net profit	12,553	8,190	5,534	6,908	7,826
NPM (%)	11.78%	8.41%	6.01%	6.71%	7.06%
...YoY	18.05%	-34.76%	-32.43%	24.83%	13.29%

Source: Company data, CMBIS estimates

Financial Summary

Income statement						Cash flow					
YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E	YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue	106,595	97,401	92,114	102,985	110,796	Net income	12,553	8,190	5,534	6,908	7,826
Automobiles	102,651	91,843	83,814	92,912	98,513	D&A	(2,413)	(3,733)	(5,491)	(5,238)	(5,389)
Parts and components	3,944	5,130	6,989	8,736	10,920	Change in working capital	3,754	812	(7,175)	4,954	864
R&D service	0	0	745	760	775	Others	31	7,269	8,729	2,589	9,959
Licensing of IP	0	428	566	577	589	Net cash from operating	13,925	12,538	1,597	9,213	13,259
Cost of sales	(85,082)	(80,485)	(77,377)	(86,198)	(92,515)	Capex & investments	(12,552)	(7,498)	(6,837)	(5,720)	(5,895)
Gross profit	21,513	16,917	14,737	16,787	18,281	Associated companies	(35)	(58)	(32)	(49)	(54)
S&D expenses	(4,523)	(4,332)	(5,053)	(5,355)	(5,540)	Others	1,269	(3,235)	1,439	0	0
Admin expenses	(3,777)	(5,122)	(5,754)	(6,076)	(6,537)	Net cash from investing	(11,319)	(10,791)	(5,430)	(5,770)	(5,950)
Share-based payments	(15)	(5)	(4)	(5)	(6)	Equity raised	0	3,413	5,937	0	0
Finance expenses	79	108	208	170	216	Change of Debts	2,127	763	(247)	(518)	257
PL of JVs	505	626	825	1,033	1,204	Dividend paid	(2,767)	(2,058)	(1,637)	(1,741)	(1,972)
PL of Associates	(60)	38	51	56	61	Others	334	(355)	(292)	0	0
Other income	1,237	1,225	1,039	1,442	1,440	Net cash from financing	(306)	1,763	3,761	(2,259)	(1,716)
Other expense	0	0	0	0	0	Net change in cash	2,300	3,510	(170)	1,184	5,594
Gain on disposal of	0	183	392	0	0	Cash at the beginning	13,451	15,757	19,322	19,151	20,335
Profit before income tax	14,959	9,636	6,441	8,050	9,120	Exchange difference	6	55	0	0	0
Income tax expense	(2,285)	(1,375)	(866)	(1,087)	(1,231)	Cash at the end	15,757	19,322	19,151	20,335	25,929
Profit for the year	12,674	8,261	5,575	6,963	7,889	Less: pledged cash	19	40	174	174	174
Less: MI	121	72	41	56	63						
Net Profit	12,553	8,190	5,534	6,908	7,826						

Balance sheet						Key ratios					
YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E	YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E
Non-current assets	48,676	57,914	59,881	59,587	62,271	Profit mix (%)					
Fixed asset	23,423	27,070	26,574	28,751	30,007	Automobiles	96%	94%	91%	90%	89%
Intangible assets	14,993	17,598	18,610	16,166	15,953	Parts and components	4%	5%	8%	8%	10%
Interest in JV/associate	6,322	8,837	9,689	10,753	11,961	R&D service	0%	0%	1%	1%	1%
Other non-current assets	3,937	4,408	5,008	3,917	4,351	Licensing of IP	0%	0%	1%	1%	1%
						Total	100%	100%	99%	99%	99%
Current assets	42,785	50,014	50,935	59,426	66,732	P&L ratios (%)					
Cash	15,757	19,322	19,151	20,335	25,929	Gross profit margin	20%	17%	16%	16%	17%
Account receivable	22,865	25,845	27,868	34,479	35,583	Pre-tax margin	14%	10%	7%	8%	8%
Inventory	4,097	4,821	3,691	4,537	5,140	Net margin	12%	8%	6%	7%	7%
Other current assets	67	27	225	75	81	Effective tax rate	15%	14%	13%	14%	14%
						Balance sheet ratios					
Current liabilities	43,760	48,526	41,887	51,189	54,944	Current ratio (x)	0.98	1.03	1.22	1.16	1.21
Borrowings	1,375	37	30	0	0	Quick ratio (x)	0.88	0.93	1.12	1.07	1.12
Account payables	41,438	47,873	41,516	50,705	54,421	Cash ratio (x)	0.36	0.40	0.46	0.40	0.47
Other payables	0	0	0	0	0	Inventory days	18	22	17	19	20
Tax payables	947	616	340	484	523	Account payable days	178	217	196	215	215
						Account receivable days	78	97	110	146	140
Non-current liabilities	2,326	4,477	4,716	3,678	4,001	Total liab / equity ratio (%)	102%	97%	73%	86%	84%
Borrowings	2,048	4,149	3,909	3,422	3,678	Net debt / equity ratio (%)	net cash	net cash	net cash	net cash	net cash
Provisions	0	0	0	0	0	Returns (%)					
Deferred income tax	278	301	409	256	323	ROE	32%	16%	9%	11%	12%
Others	0	26	397	0	0	ROA	17%	10%	6%	7%	7%
						Per share					
Shareholders' equity	44,944	54,436	63,631	63,511	69,365	EPS (RMB)	1.40	0.90	0.58	0.72	0.82
Minority Interest	431	489	582	635	694	DPS (RMB)	0.31	0.23	0.17	0.18	0.21
Total net assets	45,375	54,924	64,213	64,146	70,058	BVPS (RMB)	5.47	6.49	7.08	7.07	7.72

Source: Company data, CMBIS estimates

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

CMBIS is not a registered broker-dealer in the United States. As a result, CMBIS is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

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.