

Geely (175 HK)

Valuation uplifts with a series of good news

Geely announced that total sales were 151K units in Nov, an increase of 5% YoY. Among them, Lynk&Co sold 22.8K units in Nov, an increase of 61% YoY. We remain optimistic about Geely given its technological strength, brand stretching, and the advancement of the holding company. We revised our 2021E earnings forecast from RMB9.3bn to RMB9.9bn and raised TP to HK\$35.0. Reiterate BUY rating.

- Technological strength was gradually manifested in 2H20E.** In Nov, the new A+ class sedan, Preface (星瑞), was rolled out to the market, marked as the first ICE with FOTA upgrade in China auto market. Its sales reached 7,017 units in Nov, which is expected to become one of the top-selling models. The release of SEA architecture (浩瀚架构) in Oct suggests Geely achieved a leading position in the intelligent-EV market. It may be equipped on the Volvo X20 in the future, reflecting the competitiveness of SEA. Moreover, Geely is cooperating with Daimler to build the next-generation engine for hybrid vehicles. We believe that the above news reflects that Geely is reaping the fruit of consistent investment in cutting-edge technology.
- Brands stretching proved by the rising sales volume of Lynk&Co.** Lynk&Co's sales exceeded 20K units for two consecutive months (+56% YoY in Oct/+61% YoY in Nov). The new Lynk&Co 01 (facelift version) has already been launched in Dec 2020. Lynk&Co Zero Concept, the first product under the SEA architecture, is expected to be launched in 2021E. Its NEDC mile range will exceed 700km while the acceleration time to 100km/h will be less than 4s. In the meanwhile, Lynk&Co 07 which is based on SPA architecture is expected to debut in 2021E. We are optimistic about the brand stretching of Geely driven by Lynk&Co. We expect the sales volume of Lynk&Co will exceed 200K units in 2021E.
- Market sentiment is rising driven by the recent news release.** On 28 Sep, its A-share IPO application was approved by SZSE. We believe secondary listing will expand the coverage from both buy-/sell-side with more operation details, boosting the overall valuation and H-share stock price. From onwards, we expect Geely will restart the M&A negotiations with Volvo and will remain at the center of spotlight after the A-share listing. At the same time, with the launch of the SEA platform, we expect the market will have a refreshed understanding of its leading position within the intelligent & EV field, thereby uplifting the overall valuation level further.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	106,595	97,401	89,890	99,856	107,500
YoY growth (%)	14.91%	-8.63%	-7.71%	11.09%	7.65%
Net income (RMB mn)	12,553	8,190	7,204	9,876	11,298
EPS (RMB)	1.40	0.90	0.73	1.01	1.15
YoY growth (%)	17%	-36%	-19%	37%	14%
Consensus EPS(RMB)	NA	NA	0.77	1.07	1.21
P/E (x)	13.80	21.40	26.30	19.18	16.77
P/B (x)	3.53	2.97	2.70	2.39	2.12
Yield (%)	1.60%	1.17%	0.84%	1.16%	1.32%
ROE (%)	31.62%	16.48%	12.59%	15.46%	15.67%
Net gearing (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$35.0
(Previous TP	HK\$19.1)
Up/Downside	+59.0%
Current Price	HK\$22.0

China Auto Sector

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Stock Data

Mkt Cap (HK\$ mn)	215,947
Avg 3 mths t/o (HK\$ mn)	1,631.16
52w High/Low (HK\$)	24.45/9.79
Total Issued Shares (mn)	9,816

Source: Wind

Shareholding Structure

LI Shu Fu	41.20%
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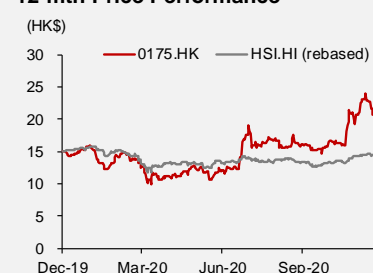
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	14.3%	13.1%
3-mth	35.8%	25.5%
6-mth	83.6%	69.6%

Source: Wind

12-mth Price Performance



Source: Wind

Auditor: Grant Thornton

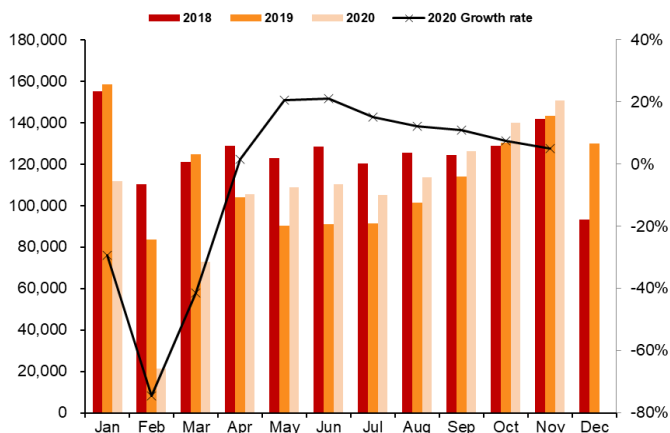
Related Reports

- "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

- **With continuous actions at the holding group level, Geely is getting close to a technology-based transportation aircraft carrier in China step by step.** 1) Geely Technology Group has taken over Lifan Industry (601777 CH) and introduced the battery swap NEV into the entity. We believe Geely Technology Group will expand the presence in “BaaS” and seize more opportunities in the related upstream and downstream business. 2) Geely CV Group has taken over Hualing Xingma (600375 CH) to strengthen its CV sector. Hualing Xingma has certain technical accumulation in the ICE engine field, which will provide certain support in the short term. In the long run, Geely CV Group is expected to take advantage of NEV opportunities and make full use of the marketing channels of Hualing Xingma, overtaking the curve in the field of NECV.
- **The organizational structure at the group level was with a new "Management Committee", empowering all major sectors.** We believe that through the establishment of the "Management Committee", each member in charge will aim at a clear target of each sub-sector while coordinate through a new organizational structure. We believe that PV (Geely, Lynk&Co, Volvo, Polestar, Proton, Lotus), CV, technology group, and financial subsidiaries under the holding company will expand in their respective fields. In the future, we expected synergy and complementarity will form with Geely Automobile (175 HK) in various perspectives such as technology, marketing channels, and business models. Geely is getting close to a technology-based transportation aircraft carrier in China step by step.
- **We are optimistic about China's auto sales in 2021E and believe that Geely's sales volume will achieve double-digit growth in 2021E.** We expect Geely to achieve a sales volume of 1.45mn units in 2021E, an increase of 10% YoY. Among them, Lynk&Co is expected to achieve a sales volume of 203K units, an increase of 20% YoY. As a result, we raise our earnings forecast to RMB9.9bn to reflect PL sharing from Lynk&Co. Therefore, we raised our TP to HK\$35.0 (based on the new 30.5x 2021E P/E) with an upside of 59.0% from initial TP of HK\$19.1 (based on initial 17.0x 2021E P/E). Reiterate BUY.

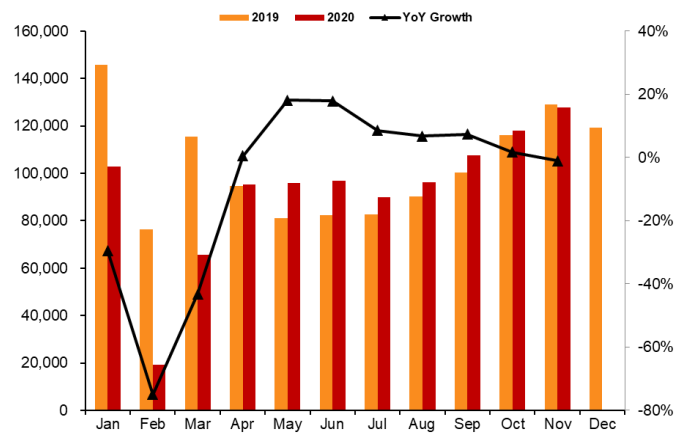
Focus chart

Figure 1: Monthly Sales volume



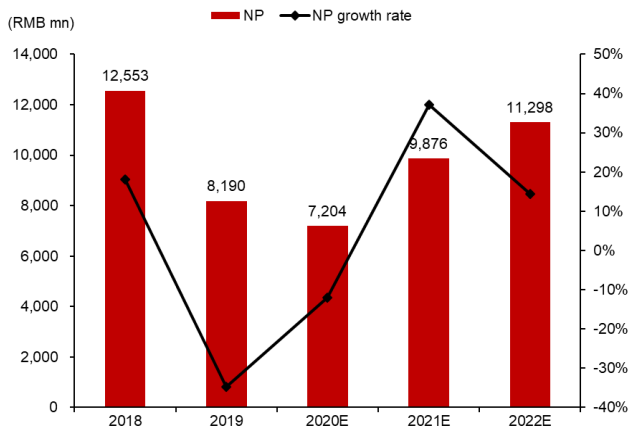
Source: Company data, CMBIS

Figure 2: Sales volume: Lynk&Co



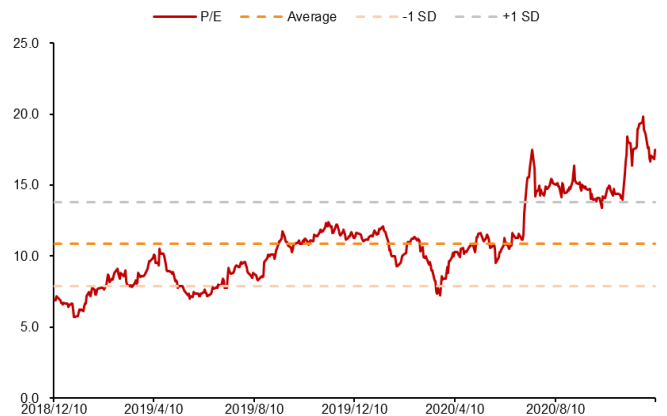
Source: Company data, CMBIS

Figure 3: Bottom-line forecast



Source: Company data, CMBIS estimates

Figure 4: PE Band



Source: Bloomberg, CMBIS

Figure 5: SEA



Source: 163.com, CMBIS

Figure 6: Lynk&Co Zero Concept



Source: Autohome, CMBIS

Earnings Revision

Figure 7: Earnings revision

(RMB mn)	New		Old		Change (%)	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	89,890	99,856	91,925	100,252	-2%	0%
Gross profit	15,551	17,874	15,903	17,945	-2%	0%
Net profit	7,204	9,876	7,180	9,291	0%	6%
EPS (RMB)	0.73	1.01	0.77	1.00	-5%	1%
GPM	17.30%	17.90%	17.30%	17.90%	0.0 ppt	0.0 ppt
NPM	8.01%	9.89%	7.81%	9.27%	0.2 ppt	0.6 ppt

Source: CMBIS estimates

Figure 8: CMBIS estimates vs consensus

(RMB mn)	CMBIS		Consensus		Diff (%)	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	89,890	99,856	93,129	108,683	-3%	-8%
Gross profit	15,551	17,874	16,008	19,656	-3%	-9%
Net profit	7,204	9,876	7,342	10,231	-2%	-3%
EPS (RMB)	0.73	1.01	0.77	1.07	-5%	-6%
GPM	17.30%	17.90%	17.19%	18.09%	0.1 ppt	-0.2 ppt
NPM	8.01%	9.89%	7.88%	9.41%	0.1 ppt	0.5 ppt

Source: Bloomberg, CMBIS estimates

Figure 9: P&L breakdown

(RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	106,595	97,401	89,890	99,856	107,500
...YoY	14.91%	-8.63%	-7.71%	11.09%	7.65%
Cost of sales	(85,082)	(80,485)	(74,339)	(81,982)	(88,043)
Gross profit	21,513	16,917	15,551	17,874	19,458
GPM (%)	20.18%	17.37%	17.30%	17.90%	18.10%
...YoY	19.64%	-21.37%	-8.07%	14.94%	8.86%
Selling Exp	(4,523)	(4,332)	(4,225)	(4,494)	(4,730)
...% of rev	-4.24%	-4.45%	-4.70%	-4.50%	-4.40%
Admin Exp	(3,777)	(5,122)	(5,393)	(5,292)	(5,536)
...% of rev	-3.54%	-5.26%	-6.00%	-5.30%	-5.15%
EBIT	14,880	9,528	8,301	11,388	13,010
EBIT Margin (%)	13.96%	9.78%	9.23%	11.40%	12.10%
...YoY	16.17%	-35.97%	-12.88%	37.19%	14.24%
Net profit	12,553	8,190	7,204	9,876	11,298
NPM (%)	11.78%	8.41%	8.01%	9.89%	10.51%
...YoY	18.05%	-34.76%	-12.04%	37.10%	14.40%

Source: Company data, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	106,595	97,401	89,890	99,856	107,500
Automobiles	102,651	91,843	82,528	90,754	96,225
Parts and components	3,944	5,130	6,926	8,657	10,821
Licensing of IP	0	428	437	445	454
Cost of sales	(85,082)	(80,485)	(74,339)	(81,982)	(88,043)
Gross profit	21,513	16,917	15,551	17,874	19,458
S&D expenses	(4,523)	(4,332)	(4,225)	(4,494)	(4,730)
Admin expenses	(3,777)	(5,122)	(5,393)	(5,292)	(5,536)
Share-based payments	(15)	(5)	(4)	(5)	(5)
Finance expenses	79	108	133	242	294
PL of JVs	505	626	1,055	1,861	2,376
PL of Associates	(60)	38	42	46	51
Other income	1,237	1,225	1,276	1,398	1,398
Other expense	0	0	0	0	0
Gain on disposal of	0	183	0	0	0
Profit before income tax	14,959	9,636	8,434	11,631	13,305
Income tax expense	(2,285)	(1,375)	(1,164)	(1,663)	(1,903)
Profit for the year	12,674	8,261	7,270	9,967	11,402
Less: MI	121	72	66	91	104
Net Profit	12,553	8,190	7,204	9,876	11,298

Cash flow

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Net income	12,553	8,190	7,204	9,876	11,298
D&A	2,213	3,036	3,140	3,526	3,833
Change in working capital	3,754	812	(1,373)	3,552	(1,732)
Others	(4,595)	500	2,360	684	(229)
Net cash from operating	13,925	12,538	11,331	17,639	13,171
Capex & investments	(17,179)	(9,267)	(7,606)	(8,418)	(9,639)
Associated companies	(35)	(58)	(46)	(51)	(56)
Others	5,895	(1,466)	0	0	0
Net cash from investing	(11,319)	(10,791)	(7,652)	(8,469)	(9,695)
Equity raised	0	3	0	0	0
Change of Debts	2,127	726	1,112	(474)	570
Dividend paid	(2,767)	(2,058)	(1,599)	(2,193)	(2,508)
Others	334	3,092	0	0	0
Net cash from financing	(306)	1,763	(487)	(2,667)	(1,939)
Net change in cash	2,300	3,510	3,191	6,502	1,537
Cash at the beginning	13,451	15,757	19,322	22,513	29,015
Exchange difference	6	55	0	0	0
Cash at the end	15,757	19,322	22,513	29,015	30,553
Less: pledged cash	19	40	40	40	40

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	48,676	57,914	62,683	69,481	77,541
Fixed asset	23,423	27,070	31,686	36,541	42,081
Intangible assets	14,993	17,598	16,485	15,817	15,273
Interest in JV/associate	6,322	8,837	9,900	11,586	13,679
Other non-current assets	3,937	4,408	4,612	5,537	6,508
Current assets	42,785	50,014	53,566	57,654	61,317
Cash	15,757	19,322	22,513	29,015	30,553
Account receivable	22,865	25,845	24,780	23,423	25,155
Inventory	4,097	4,821	6,195	5,124	5,503
Other current assets	67	27	78	92	107
Current liabilities	43,760	48,526	51,207	53,682	55,906
Borrowings	1,375	0	1,053	0	0
Account payables	41,438	47,873	49,559	52,892	55,027
Other payables	0	37	0	0	0
Tax payables	947	616	595	790	879
Non-current liabilities	2,326	4,477	4,401	5,053	5,674
Borrowings	2,048	4,149	4,208	4,787	5,357
Provisions	0	0	0	0	0
Deferred income tax	278	301	193	265	317
Others	0	26	0	0	0
Shareholders' equity	44,944	54,436	60,040	67,724	76,513
Minority interest	431	489	600	677	765
Total net assets	45,375	54,924	60,640	68,401	77,279

Key ratios

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Profit mix (%)					
Automobiles	96%	94%	92%	91%	90%
Parts and components	4%	5%	8%	9%	10%
Licensing of IP	0%	0%	0%	0%	0%
Total	100%	100%	100%	100%	100%
P&L ratios (%)					
Gross profit margin	20%	17%	17%	18%	18%
Pre-tax margin	14%	10%	9%	12%	12%
Net margin	12%	8%	8%	10%	11%
Effective tax rate	15%	14%	14%	14%	14%
Balance sheet ratios					
Current ratio (x)	0.98	1.03	1.05	1.07	1.10
Quick ratio (x)	0.88	0.93	0.92	0.98	1.00
Cash ratio (x)	0.36	0.40	0.44	0.54	0.55
Inventory days	18	22	30	23	23
Account payable days	178	217	243	235	228
Account receivable days	78	97	122	104	104
Total liab / equity ratio (%)	102%	97%	92%	86%	80%
Net debt / equity ratio (%)	net cash	net cash	net cash	net cash	net cash
Returns (%)					
ROE	32%	16%	13%	15%	16%
ROA	17%	10%	7%	9%	10%
Per share					
EPS (RMB)	1.40	0.90	0.73	1.01	1.15
DPS (RMB)	0.31	0.23	0.16	0.22	0.26
BVPS (RMB)	5.47	6.49	7.16	8.08	9.12

Source: Company data, CMBIS estimates

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