

Geely Automobile (175 HK)

1H23 GPM beat for both ICE and NEV

We believe Geely's 1H23 GPMs for both internal-combustion engine (ICE) and NEVs were more resilient than our prior expectation, which could provide investors more confidence. A good start of the *Galaxy L7* could also lure more consumers for its upcoming new models.

- **1H23 earnings beat on strong GPM.** Geely's 1H23 revenue was 5% lower than our prior forecast amid lower average selling prices. However, its GPM of 14.4% in 1H23 was 2.1 ppts higher than our expectation. We estimate GPM for the Geely brand (incl. Geometry and Galaxy) was almost the same as 1H22, despite the NEV subsidy phase-out and price war. Zeekr's double-digit GPM also beat our prior estimates. Its SG&A expenses in 1H23 were in line with our expectation, although the amortization of intangible assets was RMB 500mn lower than expected. Equity income was also RMB 200mn lower than expected due to Lynk & Co's wider-than-expected net loss. Accordingly, Geely's 1H23 net profit was about RMB 560mn higher than our prior forecast.
- **New NEV model launches on track, with resilient ICE profitability.** The *Galaxy L6* PHEV and *E8* BEV are expected to be launched in 3Q23 and 4Q23, respectively, as initially scheduled. A good start of the *Galaxy L7* PHEV could lure more consumers for new models under the Galaxy series. Zeekr plans to unveil three new models (one sedan and two SUVs) in the next 16 months. While new NEV models are key to its valuation, Geely's resilient profitability from ICE vehicles is also crucial to its sustainability. We attribute such resilient ICE profit partly to Geely's upmarket move. It now only needs to rely on a few ICE models such as the *Xingyue L* and *Xingrui* to make profit. We think such profitability is likely to be sustained after experiencing a price war in 1H23.
- **Earnings/Valuation.** We raise our FY23-24E net profits by 28% and 7% to RMB 3.6bn and RMB 4.9bn, respectively, amid Geely's resilient GPM. On the other hand, we are still concerned about its SG&A burden from heavy R&D investments and high capitalization rate. We value Zeekr at 2.0x (unchanged) FY24E core revenue (excluding Viridi's battery pack sales and R&D services), which would result in HK\$ 100bn for 100% Zeekr's valuation. We still value Geely's all other businesses excluding Zeekr at 15x our FY24E P/E. We maintain our BUY rating and cut target price slightly from HK\$ 14.50 to HK\$ 14.00 (SOTP valuation with details in Figure 4). Key risks to our rating and target price include lower sales volume, especially NEVs, than we expect.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	101,611	147,965	177,091	195,690	207,180
YoY growth (%)	10.3	45.6	19.7	10.5	5.9
Net income (RMB mn)	4,847	5,260	3,613	4,947	5,752
EPS (RMB)	0.48	0.50	0.34	0.47	0.55
YoY growth (%)	(12.4)	8.5	(31.3)	36.9	16.3
P/E (x)	15.8	16.1	24.9	18.1	15.5
P/B (x)	1.1	1.1	1.1	1.1	1.0
Yield (%)	0.9	1.6	1.0	1.3	1.5
ROE (%)	7.3	7.3	4.7	6.2	6.9
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$ 14.00
(Previous TP	HK\$ 14.50)
Up/Downside	+50.5%
Current Price	HK\$ 9.30

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Stock Data

Mkt Cap (HK\$ mn)	93,530
Avg 3 mths t/o (HK\$ mn)	396
52w High/Low (HK\$)	16.47/8.09
Total Issued Shares (mn)	10,057

Source: Bloomberg

Shareholding Structure

Li Shufu	43.2%
Others	56.8%

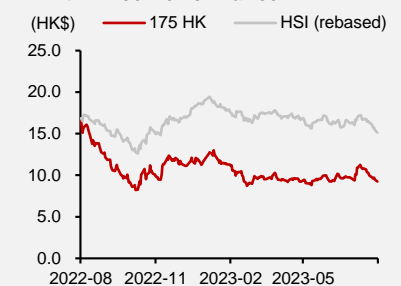
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-3.3%	4.3%
3-mth	-1.8%	8.6%
6-mth	-18.1%	-3.9%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Grant Thornton

Related Reports

["Geely Automobile – 1H23E earnings preview: All eyes on the Galaxy" – 3 Jul 2023](#)

Figure 1: Interim results

RMB mn	1H21	2H21	1H22	2H22	1H23	YoY	HoH
Sales volume (units)	630,237	697,792	613,842	819,146	694,045	13.1%	-15.3%
ASP (RMB)	75,258	80,514	87,673	91,517	84,331	-3.8%	-7.9%
Total revenue	45,032	56,579	58,184	89,781	73,182	25.8%	-18.5%
Gross profit	7,759	9,653	8,476	12,420	10,540	24.4%	-15.1%
Selling exp.	(2,554)	(3,769)	(3,304)	(4,924)	(4,768)	44.3%	-3.2%
Admin exp.	(3,251)	(4,785)	(4,685)	(5,750)	(4,808)	2.6%	-16.4%
Operating profit	2,754	1,638	1,384	2,006	1,605	16.0%	-20.0%
Net profit	2,381	2,466	1,552	3,708	1,571	1.2%	-57.6%
Gross margin	17.2%	17.1%	14.6%	13.8%	14.4%	-0.2 ppt	0.6 ppt
Operating margin	6.1%	2.9%	2.4%	2.2%	2.2%	-0.2 ppt	0.0 ppt
Net margin	5.3%	4.4%	2.7%	4.1%	2.1%	-0.5 ppt	-2.0 ppt

Source: Company data, CMBIGM estimates

Figure 2: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	177,091	195,690	207,180	176,620	192,815	200,615	0.3%	1.5%	3.3%
Gross Profit	24,596	26,400	28,962	22,332	25,127	28,099	10.1%	5.1%	3.1%
Operating Profit	3,697	4,053	4,681	1,436	3,141	4,631	157.5%	29.0%	1.1%
Net profit	3,613	4,947	5,752	2,830	4,622	6,103	27.7%	7.0%	-5.8%
Gross Margin	13.9%	13.5%	14.0%	12.6%	13.0%	14.0%	1.2 ppt	0.5 ppt	0.0 ppt
Operating Margin	2.1%	2.1%	2.3%	0.8%	1.6%	2.3%	1.3 ppt	0.4 ppt	0.0 ppt
Net Margin	2.0%	2.5%	2.8%	1.6%	2.4%	3.0%	0.4 ppt	0.1 ppt	-0.3 ppt

Source: Company data, CMBIGM estimates

Figure 3: CMBI estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	177,091	195,690	207,180	175,063	210,904	242,830	1.2%	-7.2%	-14.7%
Gross Profit	24,596	26,400	28,962	25,592	32,112	37,721	-3.9%	-17.8%	-23.2%
Operating Profit	3,697	4,053	4,681	4,208	6,333	8,497	-12.1%	-36.0%	-44.9%
Net profit	3,613	4,947	5,752	5,306	7,439	9,559	-31.9%	-33.5%	-39.8%
Gross Margin	13.9%	13.5%	14.0%	14.6%	15.2%	15.5%	-0.7 ppt	-1.7 ppt	-1.6 ppt
Operating Margin	2.1%	2.1%	2.3%	2.4%	3.0%	3.5%	-0.3 ppt	-0.9 ppt	-1.2 ppt
Net Margin	2.0%	2.5%	2.8%	3.0%	3.5%	3.9%	-1.0 ppt	-1.0 ppt	-1.2 ppt

Source: Bloomberg, CMBIGM estimates

Figure 4: Geely's SOTP valuation table

	FY24E (RMB bn)	Target P/E Multiple	Target P/S Multiple	Geely's Stake	Target Market Cap (HK\$ bn)	Target Price (HK\$)
Estimated core revenue of Zeekr	47	-	2x	54%	54	5.40
Estimated net profit for Geely's all other businesses	5	15x	-	-	87	8.60
SOTP					141	14.00

Source: CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	101,611	147,965	177,091	195,690	207,180
Cost of sales	(84,199)	(127,069)	(152,495)	(169,290)	(178,218)
Gross profit	17,412	20,896	24,596	26,400	28,962
Selling exp.	(6,323)	(8,228)	(10,654)	(10,385)	(10,619)
Admin exp.	(8,036)	(10,435)	(11,345)	(13,012)	(14,663)
Other income	1,339	1,157	1,100	1,050	1,000
Operating profit	4,393	3,389	3,697	4,053	4,681
Share-based payments	(1,213)	(1,489)	(975)	(600)	(75)
Net finance costs	280	380	331	340	391
Profit share of asso.&JVs	1,205	651	334	1,447	1,363
Other non-oper exp.	-	1,750	20	-	-
Pre-tax profit	4,665	4,682	3,407	5,241	6,360
Tax	(312)	(32)	(461)	(569)	(750)
Minority interests	494	611	668	275	142
Net profit	4,847	5,260	3,613	4,947	5,752

Cash flow summary

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Profit before taxation	4,665	4,682	3,407	5,241	6,360
Depreciation/amortization	6,893	8,318	8,921	10,132	11,302
Change in working capital	3,964	3,590	3,563	3,273	(1,500)
Others	(174)	(571)	542	(939)	(1,419)
Net cash from operating	15,348	16,018	16,433	17,706	14,744
Capex	(6,100)	(10,337)	(13,263)	(12,347)	(11,166)
Others	(1,059)	(1,793)	(343)	1,451	1,431
Net cash from investing	(7,159)	(12,130)	(13,606)	(10,896)	(9,734)
Share issuance	31	9	1	35	-
Dividend paid	(1,677)	(1,833)	(1,907)	(1,295)	(1,761)
Others	2,562	3,149	(2,260)	1,273	(757)
Net cash from financing	916	1,325	(4,166)	13	(2,518)
Net change in cash	9,105	5,213	-1,339	6,823	2,491
Cash at beginning of the year	18,977	28,014	33,341	32,002	38,825
Exchange difference	(68)	114	-	-	-
Cash at the end of the year	28,014	33,341	32,002	38,825	41,316

Balance sheet

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Current assets	65,296	79,064	86,147	97,733	103,095
Cash & equivalents	28,014	33,341	32,002	38,825	41,316
Account receivables	31,549	34,392	42,356	46,805	49,553
Inventories	5,522	10,822	11,280	11,595	11,718
Other current assets	211	508	508	508	508
Non-current assets	69,046	78,762	84,294	87,326	87,957
PP&E	30,859	32,201	32,292	31,364	29,356
Intangibles	20,959	22,609	26,452	29,270	30,794
Deferred income tax	2,435	4,573	4,573	4,573	4,573
Other non-current assets	14,793	19,379	20,976	22,118	23,233
Total assets	134,341	157,826	170,441	185,058	191,052
Current liabilities	60,351	68,953	79,203	87,771	89,933
Bank borrowings	1,907	-	-	-	-
Account payables	57,393	65,481	77,793	86,361	88,523
Tax payable	853	773	773	773	773
Other current liabilities	198	2,699	637	637	637
Non-current liabilities	3,770	12,677	13,163	13,338	13,382
Bank borrowings	-	2,758	3,258	3,258	3,258
Long-term payables	2,863	7,602	7,588	7,762	7,807
Other non-current liabilities	907	2,317	2,317	2,317	2,317
Total liabilities	64,120	81,631	92,366	101,109	103,315
Share capital	183	184	184	185	185
Reserves	65,010	71,534	74,119	78,298	82,258
Non-controlling interests	1,615	1,065	358	2,053	1,882
Shareholders' equity	68,606	75,130	77,716	81,897	85,856
Total equity and liabilities	134,341	157,826	170,441	185,058	191,052

Key ratios

YE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Sales mix (%)					
Automobile	84.6	68.3	60.9	56.0	52.4
Auto parts	8.7	5.9	5.6	5.6	5.8
IP licensing & R&D support	6.8	25.8	33.5	38.4	41.8
Growth (%)					
Revenue	10.3	45.6	19.7	10.5	5.9
Gross profit	18.2	20.0	17.7	7.3	9.7
Operating profit	(11.6)	(22.8)	9.1	9.6	15.5
Net profit	(12.4)	8.5	(31.3)	36.9	16.3
Profit & loss ratio (%)					
Gross margin	17.1	14.1	13.9	13.5	14.0
Operating margin	4.3	2.3	2.1	2.1	2.3
Net profit margin	4.8	3.6	2.0	2.5	2.8
Balance sheet ratio					
Net cash/total equity (x)	0.3	0.3	0.3	0.4	0.4
Current ratio (x)	1.1	1.1	1.1	1.1	1.1
Receivable turnover days	117	89	90	90	90
Inventory turnover days	24	31	27	25	24
Payable turnover days	254	193	190	190	185
Profitability (%)					
ROE	7.3	7.3	4.7	6.2	6.9
ROA	4.0	3.6	2.2	2.8	3.1
Per share data (RMB)					
EPS	0.48	0.50	0.34	0.47	0.55
DPS	0.18	0.19	0.13	0.17	0.20

Source: Company data, CMBIGM estimates

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