

# GAC Group (2238 HK)

## More EREVs, tech partnership to revive sales

We are of the view that the positive side of GAC's 2Q24 earnings miss is that the company has started reform to increase synergies between different brands and cope with fast-changing market dynamics, including accelerating the launch of EREVs and PHEVs for Aion and Trumpchi, closer collaboration with Huawei to roll out competitive models. These could lay a foundation for GAC to regain traction.

■ **2Q24 earnings miss on both homegrown brands and JVs.** GAC's 2Q24 revenue fell 30% YoY on lower average selling price (ASP) and sales volume. Its ASP fell more than we had expected. 2Q24 GPM of 4.3% was in line while its selling expenses were about RMB250mn higher than our estimates. Equity income from joint ventures (JVs) and associates fell 92% YoY to RMB193mn in 2Q24. Although we projected net loss for GAC Honda in 2Q24, such decline was more severe than we had expected. Aion's net loss was slightly lower than our forecast despite the price war. GAC's 2Q24 net profit of RMB300mn was only RMB130mn lower than our estimates due to the fair value gain of RMB1.1bn from Chenqi Tech's (9680 HK, NR) IPO.

■ **Management now realizes what Aion needs for healthy growth.** In our view, the challenging market, along with the fading of "cash cow" (JVs), has made management realize that Aion needs quality growth, which has been emphasized several times in our previous reports. Aion plans to roll out its first EREV in 2Q25 and is to synergize with the Group in a bid to reduce redundant work. GAC will also partner with Huawei more closely. We take all these as positives. We are of the view that GAC still has technology know-how for the current China auto market, while it overlooked the potential challenges that Aion faces by only focusing on its sales volume in the past.

■ **Earnings/Valuation.** We cut Aion's sales volume forecasts from 0.50mn/0.54mn to 0.33mn/0.42mn units for FY24/25E, respectively. We also cut GAC's equity income estimates by 57%/58% to RMB3.5bn/2.6bn for FY24/25E, respectively. Accordingly, we revise down our FY24/25E net profits by 60%/79% to RMB2.2bn/1.0bn (assuming no fair value gain like Chenqi Tech's IPO in 2025).

We use sum-of-the-parts (SOTP) valuation: we value Aion at HK\$2.0 per share, based on 0.7x (unchanged) our average FY24-25E revenue estimates. We assign HK\$1.00 per share for JVs and associates based on 3x (unchanged) our average FY24-25E EPS (see details in Figure 4). We maintain BUY rating but cut target price from HK\$5.50 to HK\$3.00. Key risks to our rating and target price include lower sales volume and margins than we expect, as well as a sector de-rating.

### Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	110,272	129,706	101,637	105,440	111,011
YoY growth (%)	45.7	17.6	(21.6)	3.7	5.3
Net profit (RMB mn)	7,978.4	4,428.8	2,158.9	1,022.8	2,479.7
YoY growth (%)	6.2	(44.5)	(51.3)	(52.6)	142.4
EPS (Reported) (RMB)	0.77	0.42	0.21	0.10	0.24
P/E (x)	2.9	5.3	11.0	23.2	9.6
P/B (x)	0.2	0.2	0.2	0.2	0.2
Yield (%)	10.7	6.7	3.2	1.5	3.7
ROE (%)	7.8	3.9	1.9	0.9	2.1
Net gearing (%)	(25.2)	(25.2)	(19.1)	(19.5)	(20.0)

Source: Company data, Bloomberg, CMBIGM estimates

### BUY (Maintain)

Target Price	HK\$3.00
(Previous TP	HK\$5.50)
Up/Downside	20.5%
Current Price	HK\$2.49

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#### Stock Data

Mkt Cap (HK\$ mn)	25,874.8
Avg 3 mths t/o (HK\$ mn)	49.4
52w High/Low (HK\$)	4.23/2.45
Total Issued Shares (mn)	10391.5

Source: FactSet

#### Shareholding Structure

Guangzhou Automobile	53.0%
Industry	
Others	47.0%

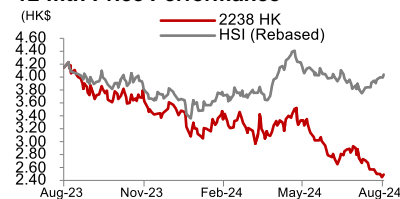
Source: HKEx

#### Share Performance

	Absolute	Relative
1-mth	-11.1%	-15.9%
3-mth	-25.2%	-24.2%
6-mth	-26.5%	-32.6%

Source: FactSet

#### 12-mth Price Performance



Source: FactSet

#### Related Report

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

["GAC Group \(2238 HK\) - FY24E NP to rise YoY on JVs and Aion" - 15 Feb 2024](#)

Figure 1: Quarterly results

RMB mn	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	YoY	QoQ
Sales volume (units)	539,875	623,029	629,559	710,711	409,698	453,340	-27.2%	10.7%
Revenue	26,557	35,354	36,271	31,524	21,566	24,689	-30.2%	14.5%
Gross profit	610	1,458	2,963	1,783	1,131	1,050	-28.0%	-7.2%
R&D expenses	(397)	(464)	(450)	(423)	(375)	(305)	-34.2%	-18.6%
SG&A expenses	(1,883)	(2,528)	(2,809)	(3,276)	(2,301)	(2,590)	2.5%	12.6%
Investment income	2,955	2,494	1,833	1,379	1,844	1,414	-43.3%	-23.3%
Operating profit	1,145	1,241	1,480	(583)	961	179	-85.6%	-81.4%
Net profit	1,538	1,428	1,545	(82)	1,216	300	-79.0%	-75.3%
Gross margin	2.3%	4.1%	8.2%	5.7%	5.2%	4.3%	0.1 ppt	-1.0 ppt
Operating margin	4.3%	3.5%	4.1%	-1.8%	4.5%	0.7%	-2.8 ppt	-3.7 ppt
Net margin	5.8%	4.0%	4.3%	-0.3%	5.6%	1.2%	-2.8 ppt	-4.4 ppt

Source: Company data, CMBIGM

Figure 2: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	101,637	105,440	111,011	139,572	147,754	152,637	-27.2%	-28.6%	-27.3%
Gross profit	5,626	6,899	8,067	7,210	9,998	12,766	-22.0%	-31.0%	-36.8%
Operating profit	(2,285)	(2,209)	(975)	(3,628)	(1,387)	695	N/A	N/A	N/A
Net profit	2,159	1,023	2,480	5,406	4,835	5,028	-60.0%	-78.7%	-50.7%
Gross margin	5.5%	6.5%	7.3%	5.2%	6.8%	8.4%	0.4 ppt	-0.2 ppt	-1.1 ppt
Operating margin	-2.2%	-2.1%	-0.9%	-2.6%	-0.9%	0.5%	0.4 ppt	-1.1 ppt	-0.9 ppt
Net margin	2.1%	1.0%	2.2%	3.9%	3.3%	3.3%	-1.8 ppt	-2.2 ppt	2.2 ppt

Source: CMBIGM estimates

Figure 3: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	101,637	105,440	111,011	135,959	146,158	158,121	-25.2%	-27.9%	-29.8%
Gross profit	5,626	6,899	8,067	8,152	10,254	13,126	-31.0%	-32.7%	-38.5%
Operating profit	(2,285)	(2,209)	(975)	(4,799)	(3,679)	(2,894)	N/A	N/A	N/A
Net profit	2,159	1,023	2,480	4,977	5,099	5,656	-62.0%	-83.4%	-64.3%
Gross margin	5.5%	6.5%	7.3%	6.0%	7.0%	8.3%	-0.5 ppt	-0.5 ppt	-1.0 ppt
Operating margin	-2.2%	-2.1%	-0.9%	-3.5%	-2.5%	-1.8%	-0.1 ppt	-0.4 ppt	0.6 ppt
Net margin	2.1%	1.0%	2.2%	3.7%	3.5%	3.6%	-1.6 ppt	-2.7 ppt	-1.5 ppt

Source: 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	34.7	-	0.7x	77%	20.6	2.00
Estimated share of profits of joint ventures & associates	3.1	3x	-	-	10.2	1.00
<b>SOTP</b>					<b>30.8</b>	<b>3.00</b>

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	101,637	105,440	111,011
Cost of goods sold	(71,777)	(106,507)	(124,179)	(96,012)	(98,541)	(102,944)
Gross profit	3,899	3,765	5,527	5,626	6,899	8,067
Operating expenses	(7,782)	(10,601)	(10,659)	(8,252)	(9,415)	(9,350)
Selling expense	(4,340)	(3,923)	(6,196)	(6,168)	(6,028)	(5,865)
Admin expense	(4,556)	(5,115)	(5,657)	(5,584)	(5,487)	(5,685)
Others	1,114	(1,563)	1,194	3,500	2,100	2,200
Operating profit	(3,883)	(6,836)	(5,131)	(2,626)	(2,516)	(1,283)
Share of (losses)/profits of associates/JV	11,404	14,065	8,349	3,597	2,559	3,209
EBITDA	13,555	14,410	11,286	10,333	10,030	12,785
Depreciation	2,878	3,145	3,440	3,837	4,204	4,537
Other amortisation	2,840	3,545	3,855	4,672	5,032	5,559
EBIT	7,837	7,720	3,992	1,825	795	2,690
Interest income	316	491	774	854	751	763
Interest expense	(425)	(352)	(467)	(621)	(572)	(554)
Pre-tax profit	7,412	7,368	3,525	1,204	222	2,137
Income tax	154	536	215	120	164	86
After tax profit	7,566	7,904	3,740	1,324	386	2,222
Minority interest	(55)	75	689	835	637	257
Net profit	7,511	7,978	4,429	2,159	1,023	2,480
Gross dividends	2,297	2,516	1,573	756	358	868
BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	61,192	91,603	101,111	87,715	90,281	91,755
Cash & equivalents	17,235	34,222	39,522	33,670	34,678	35,686
Restricted cash	1,624	1,977	2,839	2,839	2,839	2,839
Account receivables	25,110	31,407	26,779	22,277	24,555	25,852
Inventories	8,111	12,362	16,720	13,678	12,959	12,128
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	118,752	119,988	118,565
PP&E	19,476	20,761	24,930	25,523	26,842	25,873
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	37,794	38,337	39,180
Intangibles	13,581	14,471	16,470	16,825	16,418	15,392
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	206,467	210,269	210,320
Current liabilities	49,133	56,718	77,194	64,110	67,762	66,109
Short-term borrowings	9,889	13,813	17,732	19,603	20,735	17,003
Account payables	38,490	42,099	58,263	43,403	45,896	47,946
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	17,888	18,387	18,416
Long-term borrowings	7,527	5,697	10,384	11,384	11,884	11,884
Other non-current liabilities	4,943	5,139	6,416	6,503	6,503	6,531
Total liabilities	61,602	67,554	93,995	81,997	86,149	84,524
Share capital	10,371	10,487	10,490	10,490	10,490	10,491
Retained earnings	50,597	56,067	57,967	58,888	59,255	61,249
Other reserves	29,345	46,750	47,317	47,327	47,327	47,345
Total shareholders equity	90,313	113,304	115,774	116,705	117,072	119,085
Minority interest	2,335	9,027	8,680	7,765	7,047	6,710
Total equity and liabilities	154,251	189,886	218,449	206,467	210,269	210,320

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
<b>YE 31 Dec (RMB mn)</b>						
<b>Operating</b>						
Profit before taxation	7,412	7,368	3,525	1,204	222	2,137
Depreciation & amortization	5,719	6,690	7,294	8,508	9,236	10,095
Tax paid	(320)	(338)	(358)	120	164	86
Change in working capital	(8,134)	(9,444)	2,073	(7,542)	707	1,360
Others	(11,167)	(10,914)	(7,930)	(2,659)	(1,692)	(2,223)
<b>Net cash from operations</b>	<b>(6,491)</b>	<b>(6,638)</b>	<b>4,604</b>	<b>(369)</b>	<b>8,637</b>	<b>11,455</b>
<b>Investing</b>						
Capital expenditure	(6,243)	(8,014)	(11,577)	(10,100)	(10,600)	(8,600)
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	3,913	2,916	3,266
<b>Net cash from investing</b>	<b>7,235</b>	<b>(1,592)</b>	<b>(5,333)</b>	<b>(6,787)</b>	<b>(8,284)</b>	<b>(5,934)</b>
<b>Financing</b>						
Dividend paid	(2,071)	(2,407)	(2,411)	(1,238)	(656)	(485)
Net borrowings	936	4,270	9,451	2,871	1,633	(3,733)
Proceeds from share issues	82	213	98	0	0	19
Others	1,829	23,104	(1,114)	(330)	(322)	(314)
<b>Net cash from financing</b>	<b>777</b>	<b>25,181</b>	<b>6,025</b>	<b>1,304</b>	<b>655</b>	<b>(4,513)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	15,791	17,235	34,222	39,522	33,670	34,678
Exchange difference	(76)	37	4	0	0	0
<b>Cash at the end of the year</b>	<b>17,235</b>	<b>34,222</b>	<b>39,522</b>	<b>33,670</b>	<b>34,678</b>	<b>35,686</b>
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
<b>YE 31 Dec</b>						
Revenue	19.8%	45.7%	17.6%	(21.6%)	3.7%	5.3%
Gross profit	69.8%	(3.4%)	46.8%	1.8%	22.6%	16.9%
EBITDA	20.6%	6.3%	(21.7%)	(8.4%)	(2.9%)	27.5%
EBIT	27.8%	(1.5%)	(48.3%)	(54.3%)	(56.5%)	238.6%
Net profit	25.9%	6.2%	(44.5%)	(51.3%)	(52.6%)	142.4%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
<b>YE 31 Dec</b>						
Gross profit margin	5.2%	3.4%	4.3%	5.5%	6.5%	7.3%
Operating margin	(5.1%)	(6.2%)	(4.0%)	(2.6%)	(2.4%)	(1.2%)
EBITDA margin	17.9%	13.1%	8.7%	10.2%	9.5%	11.5%
Return on equity (ROE)	8.6%	7.8%	3.9%	1.9%	0.9%	2.1%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
<b>YE 31 Dec</b>						
Net debt to equity (x)	(0.1)	(0.3)	(0.3)	(0.2)	(0.2)	(0.2)
Current ratio (x)	1.2	1.6	1.3	1.4	1.3	1.4
Receivable turnover days	121.1	104.0	75.4	80.0	85.0	85.0
Inventory turnover days	41.2	42.4	49.1	52.0	48.0	43.0
Payable turnover days	195.7	144.3	171.3	165.0	170.0	170.0
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
<b>YE 31 Dec</b>						
P/E	3.1	2.9	5.3	11.0	23.2	9.6
P/E (diluted)	3.1	3.0	5.3	11.1	23.4	9.6
P/B	0.3	0.2	0.2	0.2	0.2	0.2
P/CFPS	ns	ns	5.1	ns	2.7	2.1
Div yield (%)	9.9	10.7	6.7	3.2	1.5	3.7

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

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