

# Geely Automobile (175 HK)

## 1H23E earnings preview: All eyes on the Galaxy

We expect Geely's FY23E net profit to be significantly lower than current consensus, dragged by rising NEV sales amid price war. We estimate the vehicle business of Geely brand (including Geometry and Galaxy) to make loss in FY23E, the first time since at least FY10, while connected transactions (auto parts, R&D support and IP licensing) could make profit to support Geely brand's NEV transformation and Zeekr's development.

■ **We project 1H23E net profit to be RMB 1.0bn.** We project Geely's total revenue to rise 32% YoY in 1H23E, driven by Zeekr's more than doubled sales volume. We estimate vehicle revenue of Geely brand (including the Geometry series) to rise 10% YoY in 1H23E, given about 9% YoY sales-volume growth. We expect 1H23E GPM to narrow by 2.3 pts YoY to 12.3% amid wider discounts for all brands. We project SG&A ratio to narrow by 1.3 pts YoY to 12.4% in 1H23E, due to greater economies of scale and cost control. Accordingly, we estimate Geely's 1H23E net profit to fall 35% YoY to RMB 1.0bn. We forecast Zeekr's net loss to be about RMB 1.1bn in 1H23E.

■ **Galaxy series as key to Geely's valuation.** We lower our FY23E net profit forecast by 39% to RMB 2.8bn, implying 2H23E NP of RMB 1.8bn, driven by sequential sales volume increase and Zeekr's margin improvement. On the other hand, it could be difficult for Geely to cut expenses significantly due to the lingering burden of depreciation and amortization from previous heavy investments, in our view. We estimate Geely's total NEV sales volume to rise 35% YoY to 0.45mn units in FY23E, or 29% of our projected Geely's total sales volume (1.52mn units). We expect such ratio to rise to 41% in FY24E. We still believe the Galaxy series is key to Geely's valuation (excluding Zeekr) this year.

■ **Earnings/Valuation.** We expect Geely's net profit to rise 63%YoY to RMB 4.6bn in FY24E, driven by NEV sales ramp-up. We value Zeekr at 2.0x (prior 2.5x FY23E) 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 lower our price multiple due to rising competition. We value Geely's all other businesses excluding Zeekr at 15x (prior 14x FY23E) our FY24E P/E. We maintain our BUY rating and cut target price slightly from HK\$ 15.00 to HK\$ 14.50 (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	176,620	192,815	200,615
YoY growth (%)	10.3	45.6	19.4	9.2	4.0
Net income (RMB mn)	4,847	5,260	2,830	4,622	6,103
EPS (RMB)	0.48	0.50	0.27	0.44	0.58
YoY growth (%)	(12.4)	8.5	(46.2)	63.3	32.0
P/E (x)	16.1	16.5	32.8	19.7	14.9
P/B (x)	1.1	1.1	1.2	1.1	1.0
Yield (%)	0.9	1.6	0.7	1.2	1.6
ROE (%)	7.3	7.3	3.7	5.9	7.3
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

**BUY (Maintain)**

Target Price **HK\$ 14.50**  
 (Previous TP **HK\$ 15.00**)  
 Up/Downside **+51.7%**  
 Current Price **HK\$ 9.56**

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#### Stock Data

Mkt Cap (HK\$ mn)	96,145
Avg 3 mths t/o (HK\$ mn)	379
52w High/Low (HK\$)	18.74/8.30
Total Issued Shares (mn)	10,057

Source: Bloomberg

#### Shareholding Structure

Li Shufu	43.2%
Others	56.8%

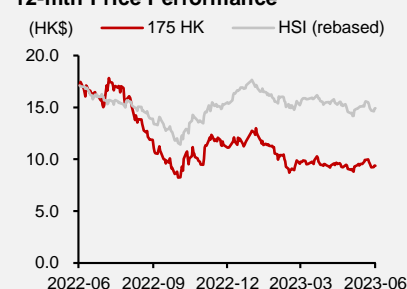
Source: HKEx

#### Share Performance

	Absolute	Relative
1-mth	2.9%	3.1%
3-mth	-2.8%	4.5%
6-mth	-17.6%	-11.5%

Source: Bloomberg

#### 12-mth Price Performance



Source: Bloomberg

#### Auditor: Grant Thornton

#### Related Reports

"Geely Automobile – FY22 core earnings miss: PHEV still the key" – 22 Mar 2023

Figure 1: Interim results

RMB mn	1H21	2H21	1H22	2H22	1H23E	YoY	HoH
Sales volume (units)	630,237	697,792	613,842	819,146	686,000	11.8%	-16.3%
ASP (RMB)	75,258	80,514	87,673	91,517	88,117	0.5%	-3.7%
Total revenue	45,032	56,579	58,184	89,781	77,075	32.5%	-14.2%
Gross profit	7,759	9,653	8,476	12,420	9,471	11.7%	-23.7%
Selling exp.	(2,554)	(3,769)	(3,304)	(4,924)	(4,239)	28.3%	-13.9%
Admin exp.	(3,251)	(4,785)	(4,685)	(5,750)	(5,318)	13.5%	-7.5%
Operating profit	2,754	1,638	1,384	2,006	414	-70.1%	-79.4%
Net profit	2,381	2,466	1,552	3,708	1,012	-34.8%	-72.7%
Gross margin	17.2%	17.1%	14.6%	13.8%	12.3%	-2.3 ppt	-1.5 ppt
Operating margin	6.1%	2.9%	2.4%	2.2%	0.5%	-1.8 ppt	-1.7 ppt
Net margin	5.3%	4.4%	2.7%	4.1%	1.3%	-1.4 ppt	-2.8 ppt

Source: Company data, CMBIGM estimates

Figure 2: Earnings revision

RMB mn	FY23E	New FY24E	FY25E	FY23E	Old FY24E	FY25E	FY23E	Diff (%) FY24E	FY25E
Revenue	176,620	192,815	200,615	168,250	194,770	N/A	5.0%	-1.0%	N/A
Gross Profit	22,332	25,127	28,099	23,972	28,543	N/A	-6.8%	-12.0%	N/A
Operating Profit	1,436	3,141	4,631	3,899	6,401	N/A	-63.2%	-50.9%	N/A
Net profit	2,830	4,622	6,103	4,610	6,911	N/A	-38.6%	-33.1%	N/A
Gross Margin	12.6%	13.0%	14.0%	14.2%	14.7%	N/A	-1.6 ppt	-1.6 ppt	N/A
Operating Margin	0.8%	1.6%	2.3%	2.3%	3.3%	N/A	-1.5 ppt	-1.7 ppt	N/A
Net Margin	1.6%	2.4%	3.0%	2.7%	3.5%	N/A	-1.1 ppt	-1.2 ppt	N/A

Source: Company data, CMBIGM estimates

Figure 3: CMBI estimates vs consensus

RMB mn	FY23E	CMBIGM FY24E	FY25E	FY23E	Consensus FY24E	FY25E	FY23E	Diff (%) FY24E	FY25E
Revenue	176,620	192,815	200,615	174,339	210,764	245,144	1.3%	-8.5%	-18.2%
Gross Profit	22,332	25,127	28,099	25,420	32,249	38,294	-12.1%	-22.1%	-26.6%
Operating Profit	1,436	3,141	4,631	4,244	6,478	8,718	-66.2%	-51.5%	-46.9%
Net profit	2,830	4,622	6,103	5,430	7,438	9,514	-47.9%	-37.9%	-35.9%
Gross Margin	12.6%	13.0%	14.0%	14.6%	15.3%	15.6%	-1.9 ppt	-2.3 ppt	-1.6 ppt
Operating Margin	0.8%	1.6%	2.3%	2.4%	3.1%	3.6%	-1.6 ppt	-1.4 ppt	-1.2 ppt
Net Margin	1.6%	2.4%	3.0%	3.1%	3.5%	3.9%	-1.5 ppt	-1.1 ppt	-0.8 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	45	-	2x	58%	59	5.90
Estimated net profit for Geely's all other businesses	5	15x	-	-	87	8.60
<b>SOTP</b>					<b>146</b>	<b>14.50</b>

Source: CMBIGM estimates

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Revenue</b>	<b>101,611</b>	<b>147,965</b>	<b>176,620</b>	<b>192,815</b>	<b>200,615</b>
Cost of sales	(84,199)	(127,069)	(154,288)	(167,688)	(172,516)
<b>Gross profit</b>	<b>17,412</b>	<b>20,896</b>	<b>22,332</b>	<b>25,127</b>	<b>28,099</b>
Selling exp.	(6,323)	(8,228)	(9,637)	(9,752)	(9,713)
Admin exp.	(8,036)	(10,435)	(12,360)	(13,284)	(14,755)
Other income	1,339	1,157	1,100	1,050	1,000
<b>Operating profit</b>	<b>4,393</b>	<b>3,389</b>	<b>1,436</b>	<b>3,141</b>	<b>4,631</b>
Share-based payments	(1,213)	(1,489)	(975)	(600)	(75)
Net finance costs	280	380	435	470	540
Profit share of asso.&JVs	1,205	651	913	1,347	1,172
Other non-oper exp.	0	1,750	0	0	0
<b>Pre-tax profit</b>	<b>4,665</b>	<b>4,682</b>	<b>1,809</b>	<b>4,358</b>	<b>6,267</b>
Tax	(312)	(32)	90	(90)	(459)
Minority interests	494	611	932	355	294
<b>Net profit</b>	<b>4,847</b>	<b>5,260</b>	<b>2,830</b>	<b>4,622</b>	<b>6,103</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Profit before taxation</b>	<b>4,665</b>	<b>4,682</b>	<b>1,809</b>	<b>4,358</b>	<b>6,267</b>
Depreciation/amortization	6,893	8,318	9,232	10,313	11,434
Change in working capital	3,964	3,590	5,030	2,820	(2,090)
Others	(174)	(571)	(145)	(978)	(1,389)
<b>Net cash from operating</b>	<b>15,348</b>	<b>16,018</b>	<b>15,925</b>	<b>16,512</b>	<b>14,222</b>
Capex	(6,100)	(10,337)	(10,530)	(10,524)	(10,056)
Others	(1,059)	(1,793)	1,597	1,560	1,560
<b>Net cash from investing</b>	<b>(7,159)</b>	<b>(12,130)</b>	<b>(8,933)</b>	<b>(8,964)</b>	<b>(8,496)</b>
Share issuance	31	9	1	35	0
Dividend paid	(1,677)	(1,833)	(1,907)	(1,020)	(1,648)
Others	2,562	3,149	(2,741)	1,293	(737)
<b>Net cash from financing</b>	<b>916</b>	<b>1,325</b>	<b>(4,647)</b>	<b>307</b>	<b>(2,385)</b>
<b>Net change in cash</b>	<b>9,105</b>	<b>5,213</b>	<b>2,345</b>	<b>7,855</b>	<b>3,341</b>
Cash at beginning of the year	18,977	28,014	33,341	35,686	43,542
Exchange difference	(68)	114	0	0	0
<b>Cash at the end of the year</b>	<b>28,014</b>	<b>33,341</b>	<b>35,686</b>	<b>43,542</b>	<b>46,883</b>

### Balance sheet

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Current assets</b>	<b>65,296</b>	<b>79,064</b>	<b>89,851</b>	<b>101,652</b>	<b>106,717</b>
Cash & equivalents	28,014	33,341	35,686	43,542	46,883
Account receivables	31,549	34,392	42,244	46,117	47,983
Inventories	5,522	10,822	11,413	11,485	11,344
Other current assets	211	508	508	508	508
<b>Non-current assets</b>	<b>69,046</b>	<b>78,762</b>	<b>79,975</b>	<b>80,894</b>	<b>80,079</b>
PP&E	30,859	32,201	30,852	29,078	26,776
Intangibles	20,959	22,609	24,853	26,523	27,113
Deferred income tax	2,435	4,573	4,573	4,573	4,573
Other non-current assets	14,793	19,379	19,696	20,720	21,617
<b>Total assets</b>	<b>134,341</b>	<b>157,826</b>	<b>169,826</b>	<b>182,547</b>	<b>186,796</b>
<b>Current liabilities</b>	<b>60,351</b>	<b>68,953</b>	<b>80,118</b>	<b>86,954</b>	<b>87,101</b>
Bank borrowings	1,907	-	-	-	-
Account payables	57,393	65,481	78,708	85,544	85,691
Tax payable	853	773	773	773	773
Other current liabilities	198	2,699	637	637	637
<b>Non-current liabilities</b>	<b>3,770</b>	<b>12,677</b>	<b>12,682</b>	<b>12,821</b>	<b>12,824</b>
Bank borrowings	-	2,758	2,758	2,758	2,758
Long-term payables	2,863	7,602	7,606	7,746	7,749
Other non-current liabilities	907	2,317	2,317	2,317	2,317
<b>Total liabilities</b>	<b>64,120</b>	<b>81,631</b>	<b>92,799</b>	<b>99,775</b>	<b>99,925</b>
Share capital	183	184	184	185	185
Reserves	65,010	71,534	73,336	77,465	81,888
Non-controlling interests	1,615	1,065	94	1,709	1,385
<b>Shareholders' equity</b>	<b>68,606</b>	<b>75,130</b>	<b>76,933</b>	<b>81,063</b>	<b>85,486</b>
<b>Total equity and liabilities</b>	<b>134,341</b>	<b>157,826</b>	<b>169,826</b>	<b>182,547</b>	<b>186,796</b>

### Key ratios

YE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Sales mix (%)</b>					
Automobile	84.6	68.3	59.1	56.6	54.5
Auto parts	8.7	5.9	5.7	5.7	6.0
IP licensing & R&D support	6.8	25.8	35.3	37.7	39.5
<b>Growth (%)</b>					
Revenue	10.3	45.6	19.4	9.2	4.0
Gross profit	18.2	20.0	6.9	12.5	11.8
Operating profit	(11.6)	(22.8)	(57.6)	118.8	47.4
Net profit	(12.4)	8.5	(46.2)	63.3	32.0
<b>Profit &amp; loss ratio (%)</b>					
Gross margin	17.1	14.1	12.6	13.0	14.0
Operating margin	4.3	2.3	0.8	1.6	2.3
Net profit margin	4.8	3.6	1.6	2.4	3.0
<b>Balance sheet ratio</b>					
Net cash/total equity (x)	0.3	0.3	0.3	0.4	0.4
Current ratio (x)	1.1	1.1	1.1	1.2	1.2
Receivable turnover days	117	89	90	90	90
Inventory turnover days	24	31	27	25	24
Payable turnover days	254	193	190	190	185
<b>Profitability (%)</b>					
ROE	7.3	7.3	3.7	5.9	7.3
ROA	4.0	3.6	1.7	2.6	3.3
<b>Per share data (RMB)</b>					
EPS	0.48	0.50	0.27	0.44	0.58
DPS	0.18	0.19	0.10	0.16	0.21

Source: Company data, CMBIGM estimates

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