

GAC Group (2238 HK)

3Q22 earnings miss on impairment, Toyota

GAC's 3Q22 earnings were below our prior expectation mainly due to unexpected impairment and QoQ decline of equity income. Accordingly, we cut our FY22-23E net profit by 13% and 9%, respectively. Yet, we are still of the view that GAC's valuation is attractive and we maintain our BUY rating.

- **3Q22 earnings miss.** GAC's 3Q22 net profit of RMB 2.3bn was RMB 900mn lower than our prior forecast, as equity income from joint ventures (JVs) and associates missed and the company booked an impairment of RMB 655mn. SG&A expenses were better than our expectation and net loss excluding equity income and impairment narrowed by RMB 700mn QoQ. Unexpected impairment in 3Q22 reminds investors of FY16-17 when impairment resulted in many earnings surprises. We also raise our forecast for FY22E impairment from RMB 1bn to RMB 1.2bn, as we believe another round of impairment in 4Q22 is likely.
- **GAC Toyota's 3Q22 earnings miss could be a signal for next year.** Management attributes equity income QoQ decline mainly to GAC Toyota, as it increased incentives to dealers. Based on our channel checks with GAC Toyota dealers, the lifted incentives in 3Q22 were to compensate dealers' loss in 2Q22. The incentives for 4Q22 should be similar or slightly higher than 3Q22 in a bid to achieve the 1mn sales volume target. Although we projected price war in Aug 2022, GAC Toyota's profit decline was still larger than we had expected, especially as GAC Toyota recorded an all-time high net margin in 1H22. We lower our forecasts for FY22-23E equity income by 5% and 4%, respectively. Yet, we believe Toyota is better positioned than most foreign brands in China.
- **Valuation/Key risks.** We use sum-of-the-parts (SOTP) valuation to factor in Aion's planned spin-off. We value Aion HK\$ 3.7 per share, based on 1.0x FY23E P/S given it is still loss-making and current P/S valuation of 1-2x for the NEV trio. We value HK\$ 4.2 per share for JVs and associates based on 3.0x our FY23E P/E, which is equivalent to a very conservative dividend discount model assuming equity income to decline YoY significantly from FY25E and become 0 in FY30E. We value 0 for Trumpchi. Accordingly, we maintain BUY rating and target price of HK\$ 8.00. Key risks to our rating and target price include lower sales volume and margins at GAC especially for Aion and a sector de-rating.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	63,157	75,676	113,304	124,632	127,207
YoY growth (%)	5.8	19.8	49.7	10.0	2.1
Net income (RMB mn)	5,964	7,511	9,573	9,085	12,709
EPS (RMB)	0.58	0.73	0.92	0.87	1.21
YoY growth (%)	(9.9)	25.9	27.4	(5.1)	39.9
P/E (x)	8.4	6.3	5.4	5.7	4.1
P/B (x)	0.6	0.5	0.5	0.5	0.4
Yield (%)	2.7	3.6	3.9	3.7	5.2
ROE (%)	7.2	8.6	10.1	8.8	11.3
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimate

BUY (Maintain)

Target Price	HK\$ 8.00
Up/Downside	+44.9%
Current Price	HK\$ 5.52

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Stock Data

Mkt Cap (HK\$ mn)	57,761
Avg 3 mths t/o (HK\$ mn)	96
52w High/Low (HK\$)	8.75/5.12
Total Issued Shares (mn)	10,464

Source: Bloomberg

Shareholding Structure

Guangzhou Automobile Industry	53.1%
Others	46.9%

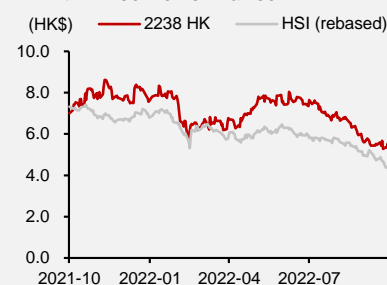
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-4.7%	5.9%
3-mth	-24.9%	-1.4%
6-mth	-18.5%	8.4%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PricewaterhouseCoopers

Related Reports

["China Auto Sector – 2H22E likely beat: FY23E consensus overstated" – 19 Oct 2022](#)

Figure 1: Quarterly results

RMB mn	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	YoY	QoQ
Sales volume (units)	496,560	529,945	467,221	650,661	608,167	541,759	675,024	44.5%	24.6%
Revenue	16,024	18,548	20,941	20,163	23,268	25,421	31,678	51.3%	24.6%
Gross profit	600	1,030	1,327	1,631	1,025	1,160	1,470	10.8%	26.8%
R&D expenses	(260)	(263)	(237)	(228)	(241)	(319)	(388)	63.4%	21.7%
SG&A expenses	(1,518)	(2,154)	(2,185)	(2,417)	(2,110)	(2,287)	(2,324)	6.3%	1.6%
Investment Income	3,443	3,060	1,781	3,530	4,227	4,271	3,770	111.7%	-11.7%
Operating profit	2,279	1,937	978	1,951	2,854	2,883	2,102	114.8%	-27.1%
Net profit	2,366	1,971	947	2,051	3,009	2,742	2,312	144.1%	-15.7%
Gross margin	3.7%	5.6%	6.3%	8.1%	4.4%	4.6%	4.6%	-1.7 ppt	0.1 ppt
Operating margin	14.2%	10.4%	4.7%	9.7%	12.3%	11.3%	6.6%	2.0 ppt	-4.7 ppt
Net margin	14.8%	10.6%	4.5%	10.2%	12.9%	10.8%	7.3%	2.8 ppt	-3.5 ppt

Source: Company data, CMBIGM

Figure 2: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	113,304	124,632	127,207	108,595	121,237	127,207	4.3%	2.8%	0.0%
Gross profit	5,241	8,135	10,844	6,061	8,338	10,844	-13.5%	-2.4%	0.0%
Operating profit	(5,627)	(4,318)	(1,648)	(5,024)	(4,050)	(1,848)	N/A	N/A	N/A
Net profit	9,573	9,085	12,709	11,008	9,938	12,538	-13.0%	-8.6%	1.4%
Gross margin	4.6%	6.5%	8.5%	5.6%	6.9%	8.5%	-1.0 ppt	-0.4 ppt	0.0 ppt
Operating margin	-5.0%	-3.5%	-1.3%	-4.6%	-3.3%	-1.5%	-0.3 ppt	-0.1 ppt	0.2 ppt
Net margin	8.4%	7.3%	10.0%	10.1%	8.2%	9.9%	-1.7 ppt	-0.9 ppt	0.1 ppt

Source: CMBIGM estimates

Figure 3: CMBI estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	113,304	124,632	127,207	98,678	115,200	131,852	14.8%	8.2%	-3.5%
Gross profit	5,241	8,135	10,844	6,506	8,693	11,784	-19.4%	-6.4%	-8.0%
Operating profit	(5,627)	(4,318)	(1,648)	(2,859)	(2,612)	527	N/A	N/A	N/A
Net profit	9,573	9,085	12,709	10,537	12,239	14,350	-9.1%	-25.8%	-11.4%
Gross margin	4.6%	6.5%	8.5%	6.6%	7.5%	8.9%	-2.0 ppt	-1.0 ppt	-0.4 ppt
Operating margin	-5.0%	-3.5%	-1.3%	-2.9%	-2.3%	0.4%	-2.1 ppt	-1.2 ppt	-1.7 ppt
Net margin	8.4%	7.3%	10.0%	10.7%	10.6%	10.9%	-2.2 ppt	-3.3 ppt	-0.9 ppt

Source: Bloomberg, CMBIGM estimates

Figure 4: SOTP valuation

GAC (2238 HK)	FY23E (RMB mn)	Target P/E Multiple	Target P/S Multiple	Est. Shareholding	Target Market Cap (RMB mn)	Target Price (HK\$)
Estimated NEV Revenue	47,625	-	1.0x	75%	35,719	3.7
Estimated Share of Profits of Joint Ventures & Associates	13,486	3.0x	-	-	40,458	4.2
SOTP					76,176	8.0

Source: CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	63,157	75,676	113,304	124,632	127,207
Cost of sales	(60,861)	(71,777)	(108,063)	(116,497)	(116,364)
Gross profit	2,296	3,899	5,241	8,135	10,844
Selling exp.	(3,641)	(4,340)	(5,390)	(6,362)	(6,379)
Admin exp.	(3,850)	(4,556)	(6,280)	(7,243)	(7,264)
Other gains	1,629	1,371	802	1,152	1,152
Operating profit	(3,567)	(3,626)	(5,627)	(4,318)	(1,648)
Net finance costs	(312)	(367)	(114)	(74)	(14)
Profit share of asso.&JVs	9,571	11,404	15,280	13,497	14,378
Pre-tax profit	5,692	7,412	9,540	9,104	12,716
Tax	356	154	172	88	33
Minority interests	(84)	(55)	(139)	(108)	(41)
Net profit	5,964	7,511	9,573	9,085	12,709

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Profit before taxation	5,692	7,412	9,540	9,104	12,716
Depreciation/amortization	5,110	5,719	7,028	7,705	8,639
Change in working capital	(3,973)	(8,134)	4,545	(2,558)	(3,815)
Others	(10,501)	(11,488)	(13,733)	(12,422)	(13,325)
Net cash from operating	(3,671)	(6,491)	7,380	1,829	4,215
Capex	(6,586)	(6,243)	(10,700)	(9,100)	(9,200)
Others	3,647	13,478	13,874	12,508	12,565
Net cash from investing	(2,938)	7,235	3,174	3,408	3,365
Net borrowings	1,105	2,657	(5,382)	1,163	(2,152)
Dividend paid	(1,936)	(2,135)	(2,532)	(3,144)	(3,134)
Others	(347)	255	(228)	(234)	(226)
Net cash from financing	(1,178)	777	(8,142)	(2,215)	(5,512)
Net change in cash	(7,787)	1,520	2,412	3,022	2,069
Cash at beginning of the year	23,605	15,791	17,235	19,647	22,669
Exchange difference	(27)	(76)	-	-	-
Cash at the end of the year	15,791	17,235	19,647	22,669	24,738

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Current assets	56,643	61,192	79,476	87,829	91,790
Cash & equivalents	15,791	17,235	19,647	22,669	24,738
Account receivables	19,616	25,110	37,251	41,658	43,564
Inventories	6,622	8,111	11,842	12,767	12,752
Other current assets	14,614	10,736	10,736	10,736	10,736
Non-current assets	86,218	93,059	98,428	100,597	102,616
PP&E	20,073	19,476	20,742	19,644	18,392
Intangibles	12,259	13,581	15,301	17,342	18,614
Deferred income tax	2,124	2,834	2,834	2,834	2,834
Other non-current assets	51,762	57,168	59,551	60,777	62,776
Total assets	142,861	154,251	177,903	188,426	194,406
Current liabilities	42,543	49,133	64,017	68,453	64,095
Bank borrowings	6,504	9,889	3,954	5,343	2,627
Account payables	35,464	38,490	59,212	62,238	60,573
Tax payable	103	202	202	202	202
Other current liabilities	472	551	649	670	693
Non-current liabilities	13,604	12,469	11,415	10,450	10,508
Bank borrowings	8,473	7,527	5,927	4,927	4,927
Government Grants	2,556	2,196	2,066	1,956	1,863
Other non-current liabilities	2,575	2,747	3,422	3,567	3,718
Total liabilities	56,147	61,602	75,432	78,903	74,603
Share capital	10,350	10,371	10,371	10,452	10,514
Reserves	74,025	79,943	89,751	96,711	106,925
Non-controlling interests	2,339	2,335	2,349	2,360	2,364
Shareholders' equity	84,375	90,313	100,122	107,163	117,439
Total equity and liabilities	142,861	154,251	177,903	188,426	194,406

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
Automobile	60.1	65.0	71.2	74.8	74.2
Parts and services	35.9	32.1	26.7	23.3	23.9
Finance and others	4.0	2.9	2.0	1.9	1.9
Growth (%)					
Revenue	5.8	19.8	49.7	10.0	2.1
Gross profit	(9.0)	69.8	34.4	55.2	33.3
Operating profit	29.1	1.6	55.2	(23.3)	(61.8)
Net profit	(9.9)	25.9	27.4	(5.1)	39.9
Profit & loss ratio (%)					
Gross margin	3.6	5.2	4.6	6.5	8.5
Operating margin	(5.6)	(4.8)	(5.0)	(3.5)	(1.3)
Net profit margin	9.4	9.9	8.4	7.3	10.0
Balance sheet ratio					
Net cash/total equity (x)	0.1	0.1	0.1	0.2	0.2
Current ratio (x)	1.3	1.2	1.2	1.3	1.4
Receivable turnover days	113	121	120	122	125
Inventory turnover days	40	41	40	40	40
Payable turnover days	213	196	200	195	190
Profitability (%)					
ROE	7.2	8.6	10.1	8.8	11.3
ROA	4.3	5.1	5.8	5.0	6.6
Per share data (RMB)					
EPS	0.58	0.73	0.92	0.87	1.21
DPS	0.18	0.22	0.29	0.27	0.38

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