

GAC Group (2238 HK)

Homegrown brands likely to narrow loss in 2H23

Maintain BUY. GAC probably faces a mixed picture in 2H23 after an in-line 2Q23, as we are concerned about GAC Mitsubishi's goodwill impairment. On the other hand, we expect Aion to cut loss significantly in 2H23E and FY24E. We now value Aion at HK\$ 62bn, based on 0.7x our FY24E P/S. We believe more investors would pay attention to Aion, should its margins improve gradually.

- **2Q23 net profit in line.** GAC's 2Q23 revenue was 9% lower than our prior forecast due to lower average selling prices amid price war. Its gross margin of 4.1% was in line with our estimates. Its equity income from joint ventures (JVs) and associates of RMB 2.4bn in 2Q23 was RMB 300mn lower than our prior forecast. Its net profit of RMB 1.4bn in 2Q23 was only RMB 3mn higher than our prior [forecast](#), as SG&A, R&D expenses and interest income beat.
- **Mixed picture in 2H23E.** Trumpchi continued to make profit in 1H23 with GPM rising YoY even amid price war and Aion made profit in Jun 2023. Therefore, we raise our FY23E GP forecast by 11%. On the other hand, profitability at GAC Honda and GAC Mitsubishi missed in 1H23, and we cut FY23E equity income by 11% to RMB 9.4bn. We are also concerned about possible goodwill impairment at GAC Mitsubishi, as it has already halted production. We factor in an impairment loss of RMB 1.3bn in 2H23E. Therefore, we lower our FY23E net profit by RMB 700mn to RMB 4.9bn.
- **A better FY24E ahead.** We expect Aion to cut net loss by more than half YoY in FY24E, as the Hyper series ramps up. We also project Trumpchi (excluding GAC Research Institute) to continue making profit in FY24E, although a decline from this year, as more PHEVs are to be on sale. In addition, GAC Mitsubishi's overhang is likely to be gone in FY24E, leading to a smaller decline for GAC's equity income. We project FY24E net profit to rise 20% YoY.
- **Valuation/Key risks.** We use sum-of-the-parts (SOTP) valuation to factor in Aion's planned spin-off. We value Aion HK\$ 4.4 per share, based on 0.7x (unchanged) our revised FY24E P/S. We value HK\$ 2.6 per share for JVs and associates based on 3.0x (unchanged) our FY24E P/E, which is equivalent to a conservative dividend discount model assuming equity income to decline YoY significantly from FY25E and become 0 in FY29E. We value 0 for all other businesses combined. Accordingly, we maintain BUY rating and target price of HK\$ 7.00. Key risks to our rating and target price include lower sales volume and margins especially for Aion and a sector de-rating.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	75,676	110,006	142,585	156,375	170,166
YoY growth (%)	19.8	45.4	29.6	9.7	8.8
Net income (RMB mn)	7,511	7,983	4,924	5,907	7,593
EPS (RMB)	0.73	0.77	0.47	0.56	0.72
YoY growth (%)	25.9	6.3	(38.3)	20.0	28.5
P/E (x)	5.2	5.1	9.0	7.5	5.9
P/B (x)	0.4	0.4	0.4	0.4	0.4
Yield (%)	3.6	4.2	2.2	2.7	3.4
ROE (%)	8.6	7.8	4.3	5.0	6.1
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$ 7.00
(Previous TP	HK\$ 7.00)
Up/Downside	+69.9%
Current Price	HK\$ 4.12

China Auto Sector

SHI Ji, CFA

(852) 3761 8728

shiji@cmbi.com.hk

DOU Wenjing, CFA

(852) 6939 4751

douwenjing@cmbi.com.hk

GU Sijie

jasongu@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	43,200
Avg 3 mths t/o (HK\$ mn)	65
52w High/Low (HK\$)	6.81/4.05
Total Issued Shares (mn)	10,485
Source: Bloomberg	

Shareholding Structure

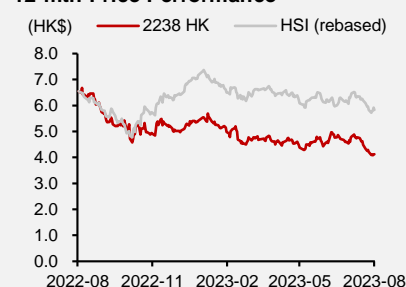
Guangzhou Automobile	52.5%
Industry	
Others	47.5%
Source: HKEx	

Share Performance

	Absolute	Relative
1-mth	-11.6%	-4.0%
3-mth	-5.9%	-1.7%
6-mth	-17.3%	-7.1%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PricewaterhouseCoopers

Related Reports

"GAC Group – 2Q23E NP to fall QoQ: Hyper margin key in 2H23" – 3 Jul 2023

Figure 1: Quarterly results

RMB mn	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	YoY	QoQ
Sales volume (units)	608,167	541,759	675,024	608,761	539,875	623,029	15.0%	15.4%
Revenue	23,268	25,421	31,678	29,639	26,557	35,354	39.1%	33.1%
Gross profit	1,025	1,160	1,470	2,320	610	1,458	25.7%	139.1%
R&D expenses	(241)	(319)	(388)	(760)	(397)	(464)	45.6%	16.8%
SG&A expenses	(2,110)	(2,287)	(2,324)	(1,676)	(1,883)	(2,528)	10.6%	34.3%
Investment Income	4,227	4,271	3,770	2,049	2,955	2,494	-41.6%	-15.6%
Operating profit	2,854	2,883	2,102	(383)	1,145	1,241	-57.0%	8.4%
Net profit	3,009	2,742	2,312	6	1,538	1,428	-47.9%	-7.1%
Gross margin	4.4%	4.6%	4.6%	7.8%	2.3%	4.1%	-0.4 ppt	1.8 ppt
Operating margin	12.3%	11.3%	6.6%	-1.3%	4.3%	3.5%	-7.8 ppt	-0.8 ppt
Net margin	12.9%	10.8%	7.3%	0.0%	5.8%	4.0%	-6.7 ppt	-1.8 ppt

Source: Company data, CMBIGM

Figure 2: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	142,585	156,375	170,166	137,042	145,964	155,076	4.0%	7.1%	9.7%
Gross profit	6,242	8,509	13,603	5,615	9,110	14,183	11.2%	-6.6%	-4.1%
Operating profit	(5,666)	(3,135)	592	(5,773)	(3,234)	504	N/A	N/A	17.5%
Net profit	4,924	5,907	7,593	5,612	6,259	8,015	-12.3%	-5.6%	-5.3%
Gross margin	4.4%	5.4%	8.0%	4.1%	6.2%	9.1%	0.3 ppt	-0.8 ppt	-1.2 ppt
Operating margin	-4.0%	-2.0%	0.3%	-4.2%	-2.2%	0.3%	0.2 ppt	0.2 ppt	0.0 ppt
Net margin	3.5%	3.8%	4.5%	4.1%	4.3%	5.2%	-0.6 ppt	-0.5 ppt	-0.7 ppt

Source: CMBIGM estimates

Figure 3: CMBI estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	142,585	156,375	170,166	131,369	146,434	161,940	8.5%	6.8%	5.1%
Gross profit	6,242	8,509	13,603	8,594	11,145	13,946	-27.4%	-23.7%	-2.5%
Operating profit	(5,666)	(3,135)	592	(5,239)	(4,498)	(1,224)	N/A	N/A	N/A
Net profit	4,924	5,907	7,593	8,144	8,623	9,488	-39.5%	-31.5%	-20.0%
Gross margin	4.4%	5.4%	8.0%	6.5%	7.6%	8.6%	-2.2 ppt	-2.2 ppt	-0.6 ppt
Operating margin	-4.0%	-2.0%	0.3%	-4.0%	-3.1%	-0.8%	0.0 ppt	1.1 ppt	1.1 ppt
Net margin	3.5%	3.8%	4.5%	6.2%	5.9%	5.9%	-2.7 ppt	-2.1 ppt	-1.4 ppt

Source: Bloomberg, CMBIGM estimates

Figure 4: SOTP valuation

GAC (2238 HK)	FY24E (RMB bn)	Target P/E Multiple	Target P/S Multiple	Est. Shareholding	Target Market Cap (HK\$ bn)	Target Price (HK\$)
Estimated Revenue of Aion	82.2	-	0.7x	75%	46.6	4.4
Estimated Share of Profits of Joint Ventures & Associates	8.5	3.0x	-	-	27.4	2.6
SOTP					74.0	7.0

Source: CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	75,676	110,006	142,585	156,375	170,166
Cost of sales	(71,777)	(105,550)	(136,344)	(147,866)	(156,563)
Gross profit	3,899	4,457	6,242	8,509	13,603
Selling exp.	(4,340)	(4,228)	(4,928)	(5,326)	(5,722)
Admin exp.	(4,556)	(5,487)	(6,529)	(7,251)	(8,023)
Other gains	1,371	(1,409)	(450)	933	733
Operating profit	(3,626)	(6,668)	(5,666)	(3,135)	592
Net finance costs	(367)	(21)	243	171	188
Profit share of asso.&JVs	11,404	14,065	9,378	8,468	7,163
Pre-tax profit	7,412	7,377	3,955	5,505	7,943
Tax	154	536	434	237	(62)
Minority interests	(55)	71	535	165	(287)
Net profit	7,511	7,983	4,924	5,907	7,593

Cash flow

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Profit before taxation	7,412	7,377	3,955	5,505	7,943
Depreciation/amortization	5,719	6,690	7,547	8,500	9,467
Change in working capital	(8,134)	(9,458)	(2,274)	794	(1,991)
Others	(11,488)	(11,246)	(7,908)	(6,871)	(6,005)
Net cash from operating	(6,491)	(6,638)	1,320	7,929	9,414
Capex	(6,243)	(8,014)	(9,000)	(9,100)	(9,100)
Others	13,478	6,421	8,556	6,617	4,673
Net cash from investing	7,235	(1,592)	(444)	(2,483)	(4,427)
Net borrowings	2,657	6,200	(6,827)	(505)	(2,685)
Dividend paid	(2,135)	(2,485)	(2,341)	(1,682)	(2,042)
Others	255	21,466	(268)	(261)	(254)
Net cash from financing	777	25,181	(9,435)	(2,449)	(4,980)
Net change in cash	1,520	16,950	(8,560)	2,997	7
Cash at year beginning	15,791	17,235	34,222	25,662	28,659
Exchange difference	(76)	37	-	-	-
Cash at year end	17,235	34,222	25,662	28,659	28,666

Balance sheet

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Current assets	61,192	91,792	99,140	107,744	113,049
Cash & equivalents	17,235	34,222	25,662	28,659	28,666
Account receivables	25,110	31,597	44,924	49,269	53,614
Inventories	8,111	12,362	14,942	16,205	17,158
Other current assets	10,736	13,612	13,612	13,612	13,612
Non-current assets	93,059	98,283	100,354	102,195	103,791
PP&E	19,476	20,761	19,645	18,502	17,262
Intangibles	13,581	14,471	16,379	17,257	17,451
Deferred income tax	2,834	3,715	3,715	3,715	3,715
Other non-current assets	57,168	59,335	60,614	62,721	65,363
Total assets	154,251	190,075	199,493	209,939	216,841
Current liabilities	49,133	56,688	64,267	69,858	70,391
Bank borrowings	9,889	13,813	7,416	6,222	3,038
Account payables	38,490	42,069	56,032	62,792	66,486
Tax payable	202	185	185	185	185
Other current liabilities	551	622	635	658	683
Non-current liabilities	12,469	11,084	10,075	10,582	11,111
Bank borrowings	7,527	5,697	4,697	5,197	5,697
Government Grants	2,196	2,183	2,056	1,947	1,855
Other non-current liabilities	2,747	3,204	3,323	3,438	3,559
Total liabilities	61,602	67,772	74,343	80,440	81,503
Share capital	10,371	10,487	10,518	10,528	10,528
Reserves	79,943	102,802	106,224	110,808	116,439
Non-controlling interests	2,335	9,014	8,408	8,163	8,371
Shareholders' equity	90,313	113,289	116,742	121,336	126,967
Total equity and liabilities	154,251	190,075	199,493	209,939	216,841

Key ratios

YE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Sales mix (%)					
Automobile	65.0	71.5	76.9	79.6	81.3
Parts and services	32.1	25.2	20.5	17.8	16.3
Finance and others	2.9	3.2	2.6	2.5	2.4
Growth (%)					
Revenue	19.8	45.4	29.6	9.7	8.8
Gross profit	69.8	14.3	40.1	36.3	59.9
Operating profit	1.6	83.9	(15.0)	(44.7)	(118.9)
Net profit	25.9	6.3	(38.3)	20.0	28.5
Profit & loss ratio (%)					
Gross margin	5.2	4.1	4.4	5.4	8.0
Operating margin	(4.8)	(6.1)	(4.0)	(2.0)	0.3
Net profit margin	9.9	7.3	3.5	3.8	4.5
Balance sheet ratio					
Net cash/total equity (x)	0.1	0.1	0.1	0.2	0.2
Current ratio (x)	1.2	1.6	1.5	1.5	1.6
Receivable turnover days	121	105	115	115	115
Inventory turnover days	41	43	40	40	40
Payable turnover days	196	145	150	155	155
Profitability (%)					
ROE	8.6	7.8	4.3	5.0	6.1
ROA	5.1	4.6	2.5	2.9	3.6
Per share data (RMB)					
EPS	0.73	0.77	0.47	0.56	0.72
DPS	0.22	0.24	0.15	0.17	0.22

Source: Company data, CMBIGM estimates

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CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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