

Geely (175 HK)

Upward Stretching led by Lynk&Co

Geely announced its 1H20 results. Total sales volume in 1H20 recorded 530K units, down 19% YoY. 1H20 top-line declined by 23% YoY to RMB36.8bn while bottom-line dropped by 43% YoY to RMB2.3bn. The Company adjusts down its full-year sales volume target to 1.32mn from the initial target of 1.41mn.

- **Affected by COVID-19, total sales volume recorded 530K units in 1H20, a 19% YoY decrease (Geely brand -20% YoY / Lynk&Co -2% YoY).** Given 1) overall NEV subsidies retreat and 2) the increase in dealer rebates, ASP dropped 6% YoY to RMB71K. In the meanwhile, GPM fell by 0.7ppt to 17.1% in 1H20. Due to the increase in marketing expenses brought by the launch of new models in 1H20, the S&D expense ratio increased by 1.2ppt to 6.0%. The consistent R&D investment and increased D&A caused the admin expense ratio to rise by 2.1ppt to 7.3% in 1H20.
- **We maintain our sales forecast at 1.31mn units (1.17mn Geely brand / 140K Lynk&Co) in 2020E, a decrease of 3% YoY.** It implies Geely will post a 10% YoY increase in 2H20E (Geely brands +9% YoY / Lynk&Co +19% YoY). Notably, Lynk&Co 05 (based on CMA platform) was launched in May while Lynk&Co 06 (based on BMA platform) will roll out in Aug. We observed that Lynk&Co has achieved the YoY growth rate of 12%/41%/53%/78% in Apr/May/Jun/Jul respectively. We believe Lynk&Co will maintain its growth momentum in 2H20E.
- **We adjust down our bottom-line forecast by 18% in 2020E at RMB7.2bn while maintaining our estimate in 2021E.** We expect both ASP and GPM will improve marginally in 2H20E given 1) the increase in operating leverage; 2) better product mix; 3) the decline in part & component costs. The shared profit from Genius AFC and Lynk&Co Group will also underpin the bottom-line performance in 2H20E. Based on our 2020E forecast, the implied bottom-line growth rate for Geely will be 17% YoY in 2H20E. In 2021E, Geely will launch two BEV models based on the PMA platform together with three PHEV models. We expect the Company will reap the fruits on its platform advantage and will have a turnaround performance in 2H20E/2021E given its strong product pipeline based on PMA/CMA platforms.
- **Although 1H20 performance disappointed the market, we believe that Geely still has re-rating potential given 1) the secondary listing on STAR board which will boost market sentiments and 2) strong performance recovery in 2H20E.** Therefore, we raise our TP to HK\$19.1 (based on new 17.0x 2021E P/E) with an upside of 21.9% from initial TP HK\$13.1 (based on initial 12.0x 2020E P/E). Reiterate BUY.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	106,595	97,401	91,925	100,252	107,625
YoY growth (%)	14.91%	-8.63%	-5.62%	9.06%	7.35%
Net income (RMB mn)	12,553	8,190	7,180	9,291	10,363
EPS (RMB)	1.40	0.90	0.77	1.00	1.12
YoY growth (%)	17%	-36%	-14%	29%	12%
Consensus EPS(RMB)	1.40	0.90	0.88	1.09	1.22
P/E (x)	9.98	15.47	18.05	13.95	12.51
P/B (x)	2.55	2.15	1.95	1.74	1.55
Yield (%)	2.21%	1.62%	1.23%	1.59%	1.78%
ROE (%)	31.62%	16.48%	12.55%	14.60%	14.54%
Net gearing (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$19.1
(Previous TP	HK\$13.1)
Up/Downside	+21.9%
Current Price	HK\$15.6

China Auto Sector

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Stock Data

Mkt Cap (HK\$ mn)	153,477
Avg 3 mths t/o (HK\$ mn)	1,459.24
52w High/Low (HK\$)	19.36/9.79
Total Issued Shares (mn)	9,813
Source: Bloomberg	

Shareholding Structure

LI Shu Fu	41.20%
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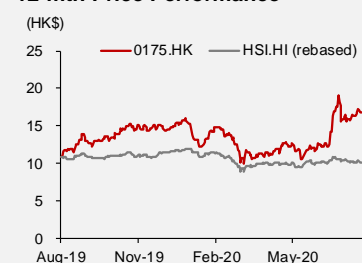
Source: HKEX

Share Performance

	Absolute	Relative
1-mth	-1.6%	-2.6%
3-mth	28.6%	20.7%
6-mth	6.0%	17.0%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Grant Thornton

Related Reports

1. "Geely (175 HK) – Volvo story outweighs the performance results" – 31 Mar 2020
2. "Geely (175 HK) – Takeaway from Geely Investor Day" – 21 Oct 2019
3. "Geely (175 HK) – Darkness before the dawn" – 4 Oct 2019

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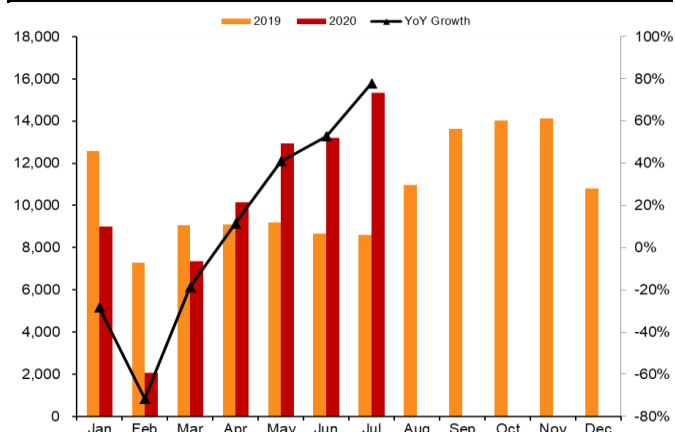
Focus Charts

Figure 1: Sales volume: Geely brands



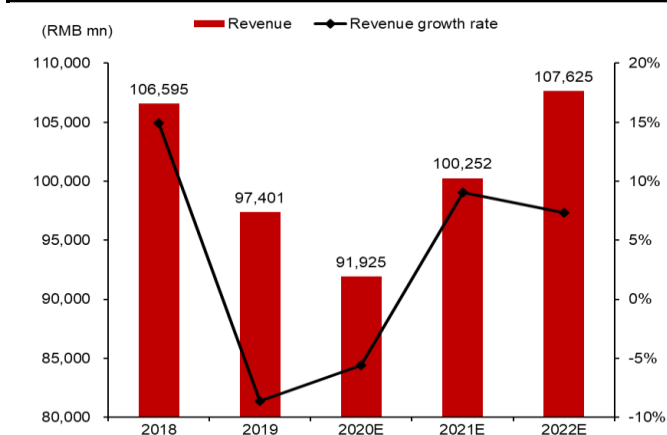
Source: Company data, CMBIS

Figure 2: Sales volume: Lynk&Co



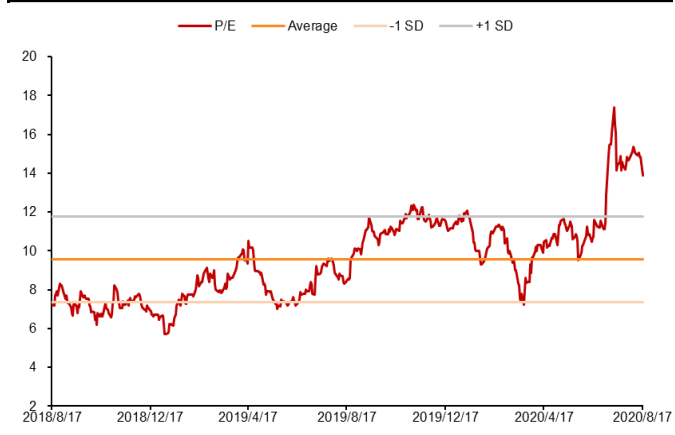
Source: Company data, CMBIS

Figure 3: Revenue forecast



Source: Company data, CMBIS estimates

Figure 4: PE Chart



Source: Bloomberg, CMBIS

Figure 5: Lynk&Co 05



Source: Autohome, CMBIS

Figure 6: Lynk&Co 06



Source: Autohome, CMBIS

Earnings Revision

Figure 7: Earnings revision

(RMB mn)	New		Old		Change (%)	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	91,925	100,252	95,476	96,567	-4%	4%
Gross profit	15,903	17,945	16,708	17,382	-5%	3%
Net profit	7,180	9,291	8,702	9,308	-17%	0%
EPS (RMB)	0.77	1.00	0.96	1.04	-19%	-4%
Gross margin	17.30%	17.90%	17.50%	18.00%	-0.2 ppt	-0.1 ppt
Net Margin	7.81%	9.27%	9.11%	9.64%	-1.3 ppt	-0.4 ppt

Source: CMBIS estimates

Figure 8: CMBIS estimates vs consensus

(RMB mn)	CMBIS		Consensus		Diff (%)	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	91,925	100,252	94,890	108,042	-3%	-7%
Gross profit	15,903	17,945	16,412	19,440	-3%	-8%
Net profit	7,180	9,291	8,004	10,284	-10%	-10%
EPS (RMB)	0.77	1.00	0.88	1.09	-12%	-8%
Gross margin	17.30%	17.90%	17.30%	17.99%	0.0 ppt	-0.1 ppt
Net Margin	7.81%	9.27%	8.43%	9.52%	-0.6 ppt	-0.3 ppt

Source: Bloomberg, CMBIS estimates

Figure 9: Revenue breakdown

(RMB mn)	FY18	FY19	FY20E	FY21E	FY22E
Sales of automobiles	102,651	91,843	84,563	91,150	96,350
...YoY	12%	-11%	-8%	8%	6%
Sales of automobile parts and components	3,944	5,130	6,926	8,657	10,821
...YoY	167%	30%	35%	25%	25%
Licensing of intellectual properties	NA	428	437	445	454
...YoY	NA	NA	2%	2%	2%
Total	106,595	97,401	91,925	100,252	107,625
...YoY	15%	-9%	-6%	9%	7%

Source: Company data, CMBIS estimates

Figure 10: P&L forecast

(RMB mn)	FY18	FY19	FY20E	FY21E	FY22E
Revenue	106,595	97,401	91,925	100,252	107,625
...YoY	14.91%	-8.63%	-5.62%	9.06%	7.35%
Cost of sales	(85,082)	(80,485)	(76,022)	(82,307)	(88,145)
Gross profit	21,513	16,917	15,903	17,945	19,480
GPM (%)	20.18%	17.37%	17.30%	17.90%	18.10%
...YoY	19.64%	-21.37%	-5.99%	12.84%	8.55%
Selling Exp	(4,523)	(4,332)	(4,412)	(4,511)	(4,736)
...% of rev	-4.24%	-4.45%	-4.80%	-4.50%	-4.40%
Admin Exp	(3,777)	(5,122)	(5,515)	(5,313)	(5,543)
...% of rev	-3.54%	-5.26%	-6.00%	-5.30%	-5.15%
Net profit	12,553	8,190	7,180	9,291	10,363
NPM (%)	11.78%	8.41%	7.81%	9.27%	9.63%
...YoY	18.05%	-34.76%	-12.34%	29.41%	11.53%

Source: Company data, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	106,595	97,401	91,925	100,252	107,625
Automobiles	102,651	91,843	84,563	91,150	96,350
Parts and components	3,944	5,130	6,926	8,657	10,821
Licensing of IP	0	428	437	445	454
Cost of sales	(85,082)	(80,485)	(76,022)	(82,307)	(88,145)
Gross profit	21,513	16,917	15,903	17,945	19,480
S&D expenses	(4,523)	(4,332)	(4,412)	(4,511)	(4,736)
Admin expenses	(3,777)	(5,122)	(5,515)	(5,313)	(5,543)
Share-based payments	(15)	(5)	(5)	(5)	(5)
Finance expenses	79	108	212	274	298
PL of JVs	505	626	876	1,102	1,259
PL of Associates	(60)	38	42	46	51
Other income	1,237	1,225	1,305	1,404	1,399
Other expense	0	0	0	0	0
Gain on disposal of	0	183	0	0	0
Profit before income tax	14,959	9,636	8,406	10,942	12,203
Income tax expense	(2,285)	(1,375)	(1,160)	(1,565)	(1,745)
Profit for the year	12,674	8,261	7,246	9,377	10,458
Less: MI	121	72	66	86	95
Net Profit	12,553	8,190	7,180	9,291	10,363

Cash flow

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Net income	12,553	8,190	7,180	9,291	10,363
D&A	2,213	3,036	3,142	3,529	3,837
Change in working capital	3,754	812	3,792	(1,633)	(1,748)
Others	(4,595)	500	3,160	1,085	721
Net cash from operating	13,925	12,538	17,274	12,272	13,172
Capex & investments	(17,179)	(9,267)	(7,649)	(8,434)	(9,647)
Associated companies	(35)	(58)	(46)	(51)	(56)
Others	5,895	(1,466)	0	0	0
Net cash from investing	(11,319)	(10,791)	(7,695)	(8,484)	(9,703)
Equity raised	0	3	0	0	0
Change of Debts	2,127	(1,363)	(98)	330	379
Dividend paid	(2,767)	(2,058)	(1,594)	(2,063)	(2,301)
Others	334	5,181	0	0	0
Net cash from financing	(306)	1,763	(1,692)	(1,733)	(1,922)
Net change in cash	2,300	3,510	7,887	2,055	1,547
Cash at the beginning	13,451	15,757	19,322	27,208	29,263
Exchange difference	6	55	0	0	0
Cash at the end	15,757	19,322	27,208	29,263	30,811
Less: pledged cash	19	40	40	40	40

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	48,676	57,914	62,589	68,799	76,003
Fixed asset	23,423	27,070	31,705	36,568	42,113
Intangible assets	14,993	17,598	16,504	15,840	15,296
Interest in JV/associate	6,322	8,837	9,767	10,887	12,146
Other non-current assets	3,937	4,408	4,613	5,504	6,449
Current assets	42,785	50,014	53,759	58,016	61,611
Cash	15,757	19,322	27,208	29,263	30,811
Account receivable	22,865	25,845	21,721	23,516	25,184
Inventory	4,097	4,821	4,751	5,144	5,509
Other current assets	67	27	78	92	107
Current liabilities	43,760	48,526	51,274	53,844	55,897
Borrowings	1,375	0	0	0	0
Account payables	41,438	47,873	50,681	53,101	55,091
Other payables	0	37	0	0	0
Tax payables	947	616	593	743	806
Non-current liabilities	2,326	4,477	4,453	5,048	5,652
Borrowings	2,048	4,149	4,260	4,799	5,362
Provisions	0	0	0	0	0
Deferred income tax	278	301	192	250	291
Others	0	26	0	0	0
Shareholders' equity	44,944	54,436	60,021	67,250	75,312
Minority interest	431	489	600	672	753
Total net assets	45,375	54,924	60,621	67,922	76,065

Key ratios

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Profit mix (%)					
Automobiles	96%	94%	92%	91%	90%
Parts and components	4%	5%	8%	9%	10%
Licensing of IP	0%	0%	0%	0%	0%
Total	100%	100%	100%	100%	100%
P&L ratios (%)					
Gross profit margin	20%	17%	17%	18%	18%
Pre-tax margin	14%	10%	9%	11%	11%
Net margin	12%	8%	8%	9%	10%
Effective tax rate	15%	14%	14%	14%	14%
Balance sheet ratios					
Current ratio (x)	0.98	1.03	1.05	1.08	1.10
Quick ratio (x)	0.88	0.93	0.95	0.98	1.00
Cash ratio (x)	0.36	0.40	0.53	0.54	0.55
Inventory days	18	22	23	23	23
Account payable days	178	217	243	235	228
Account receivable days	78	97	104	104	104
Total debt / equity ratio	102%	97%	92%	87%	81%
Net debt / equity ratio	net cash	net cash	net cash	net cash	net cash
Returns (%)					
ROE	32%	16%	13%	15%	15%
ROA	17%	10%	7%	9%	9%
Per share					
EPS (RMB)	1.40	0.90	0.77	1.00	1.12
DPS (RMB)	0.31	0.23	0.17	0.22	0.25
BVPS (RMB)	5.47	6.49	7.16	8.02	8.98

Source: Company data, CMBIS estimates

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