

## Stable 12H result with surged exports

Bloomberg | Reuters | POEMS

175.HK | 175.HK | 175.HK

Industry: Automobile

### 2012H result review

Rating: Accumulate CP: 2.54HKD TP: 2.98HKD

#### Company Profile

Headquartered in Hangzhou, Geely is one of big-3 Chinese local brand car producers, with manufacture bases in Linhai, Ningbo and Luqiao, Shanghai, Lanzhou, Xiangtan, Jinan Chengdu, and a R&D center/production base from DSI in Australia. It has more than 30 car models under three sub-brands -- Emgrand, Gleagle and Englon.

#### Summary

- **Geely releases mid-2012 report:** Operation Turnover increased by 6% to RMB11.177 billion from a year ago, operating cost up by 6% year-on-year, and yearly profit attributable to shareholders of the parent company reached RMB1.02 billion, up by 8.7% from the same period of previous years. The Company realized diluted EPS RMB0.125, rising by 9%, and performance was in line with the expectation. Meanwhile, interim dividends were not distributed. Main drive for performance growth was the outbreak of the export market and satisfactory demand of Emgrand brand. In addition, government subsidy income increased by 19% year-on-year to nearly RMB100 million, with much performance increase.

- **Strong export growth is the key highlight.** The Company H1 sold 222,000 vehicles, up by 4.2% from the same period of last year, taking 48.3% of the yearly sales goal of 460,000 units. Among them, Domestic market regression accelerated sales down by 9%, but export demand remained strong, sales up by 199% to 40,000 units, which offset the unfavorable effect of domestic sales. Geely overseas market entered rapid growth period, and yearly export is expected to break 85,000 units, up 115% year-on-year.

- **Product mix continues to move up, but gross margin levels off.** Global Hawk brand which made up 36% share continued to slide, among which Free Ship and Vision brands declined by 20% and 44% from last year, while high-end Deidro Delux sales grew by 36% to 69,000 units. Driven by released capacity of Cixi factory completion, Deidro Delux EC7 model sales rose by 38%, and average monthly sales outnumbered 10,000 units, which accounted for 27% of Geely Automobile total sales. The Company ex-factory prices remained steady, while strong sales growth contributed by EC7 was offset by high favorable promotions of low-end models and cost increase leveled off gross margin to 17.4%.

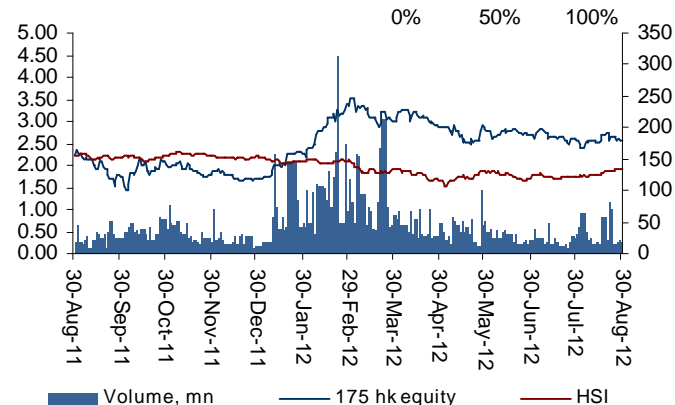


Phillip Securities (HK) Ltd  
Phillip Securities Research

31 August 2012

#### Geely

<b>Rating</b>	<b>2.00</b>	<b>Accumulate</b>
- Previous Rating	2.00	Accumulate
<b>Target Price (HKD)</b>	<b>2.98</b>	
- Previous Target Price (HKD)	2.98	
Closing Price (HKD)	2.55	
Expected Capital Gains (%)	16.9%	
Expected Dividend Yield (%)	1.7%	
<b>Expected Total Return (%)</b>	<b>18.5%</b>	
Raw Beta (Past 2yrs w weekly data)	1.32	
Market Cap. (HKD bn)	19,068	
Enterprise Value (HKD mn)	18,710	
52 week range (HKD)	1.42 - 3.56	
Closing Price in 52 week range		



#### Key Financial Summary

FYE	12/10	12/11	12/12F	12/13F
Revenue (RMB mn)	20,099	20,965	23,702	27,129
Net Profit, adj. (RMB mn)	1,368	1,543	2,055	2,442
EPS, adj. (RMB)	0.19	0.21	0.28	0.33
P/E (X),adj.	11.3	10.1	7.6	6.4
BVPS (RMB)	1.09	1.29	1.57	1.71
P/B (X)	1.9	1.6	1.3	1.2
DPS (RMB)	0.03	0.03	0.03	0.04
Div. Yield (%)	1.2%	1.3%	1.4%	1.7%

Source: Bloomberg, PSR est.

\*All multiples & yields based on current market price

#### Valuation Method

PE

#### Research Analyst

**Zhang Jing**

zhangjing@phillip.com.cn

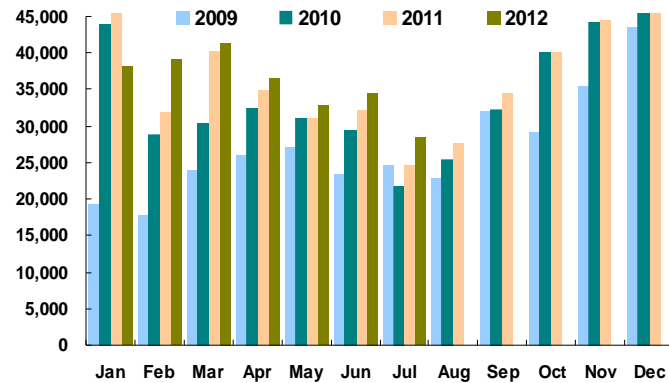
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• **New models and transmission gearbox 6AT are expected to improve H2 performance.** The July sales of The Company first SUV model GX7 reached 3,000 units, with good performance, and it will impact monthly sales of 5,000 units in H2. Geely plans to launch nine new models including EX8 and SC6 in H2 2012, Xiangtan factory started to mass-produce 6AT gearbox in end-June, which enabled the Company to launch more new models equipped with 6AT in H2. we predict that higher product price-performance ratio is expected to increase H2 sales and positively boost the Company gross margin.

• **Valuation and Rating.** After Geely successfully purchased Volvo, remarkable progress was made in safety and quality aspects, which improved the Company brand image. We believe supported by new car effect and export boom, H2 sales will be better than expected. We maintain its 12-month target price of HKD2.98, corresponding to 9.7 times and 8.2 times of diluted EPS in end-2012 and end-2013, a premium of 17% over the present price, “accumulate” rating maintained.

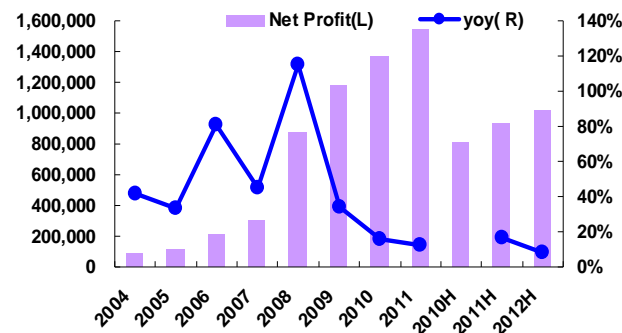
• **Risk factors.** Economic slide severely weakens car consumption demand; raw material cost substantially increases; fierce market competition and price decrease range go beyond the expectations; overseas market risk; urban congestion spreads purchase restrictions, etc.

**Fig 1. Geely’s monthly sales**



Source: Company reports, Phillip Securities

**Fig 2. View of Geely’s net profit and growth**



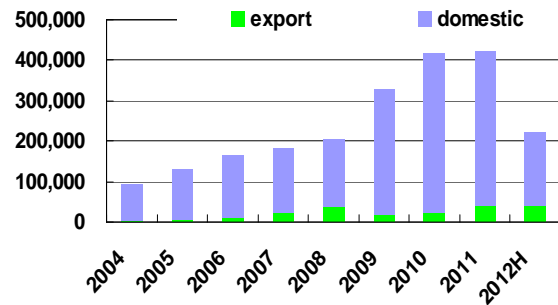
Source: Company reports, Phillip Securities

**Fig 3. Geely’s new products in 2012H2**

- “GLEagle”
  - “GX7” SUV with 2.4L engine and DSIH 6AT
  - 2nd Generation of “Kingkong” basic sedan
- “Emgrand”
  - “EV8” MPV
  - “EX8” SUV
- “Englon”
  - “SC3” economy sedan
  - “SC6” basic sedan
  - “SC7” mid-sized sedan with DSIH 6AT
  - “SC5” basic sedan with new 1.3T engine
  - “SX7” SUV

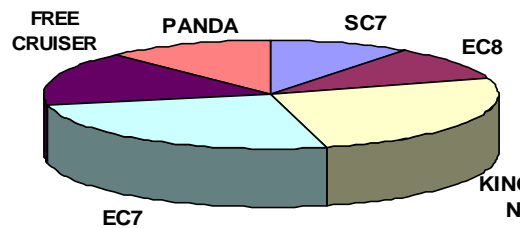
Source: Company reports, Phillip Securities

**Fig 4. Geely’s sales by regions**



Source: Company reports, Phillip Securities

**Fig 5. Mix of export sales**



Source: Company reports, Phillip Securities

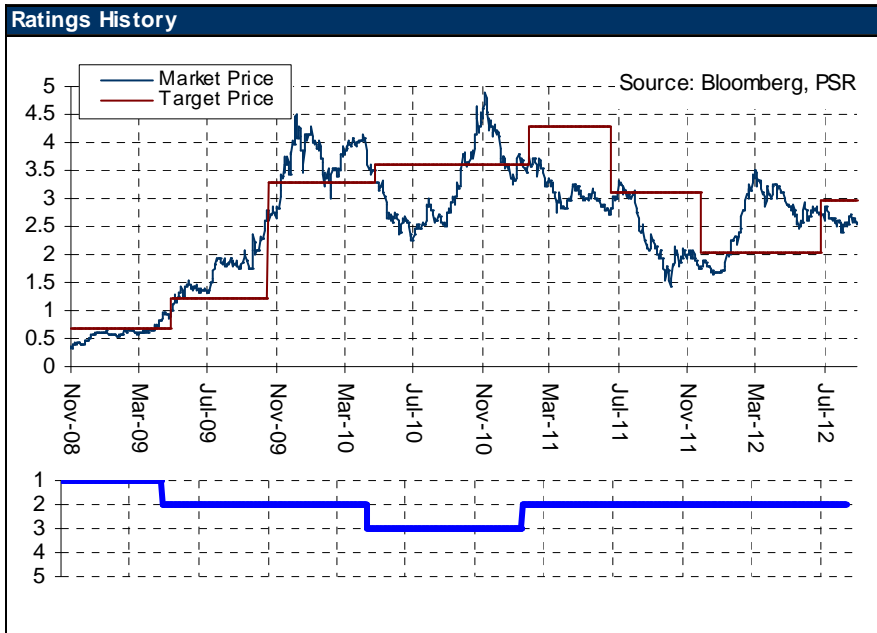
Fig 6. Peer Comparison

Ticker	Name	Market Cap	Est P/E	Est P/E (Y+1)	EV/BE st EBITD	P/B	ROA LF (%)	ROE (%)
EDM (3 securities)								
Average	Average	60925	6.7	6.6	7.6	1.2	5.0	21.3
DAI GR Equity	DAIMLER AG	54990	7.9	7.0	8.6	1.1	3.9	14.9
BMW GR	BMW	47973	7.8	7.6	7.4	1.4	3.8	19.2
VOW GR Equity	VOLKSWAGEN	79812	4.5	5.2	6.7	1.0	7.3	29.8
EFR (2 securities)								
Average	Average	8377	5.3	6.2	9.1	0.3	0.4	6.6
RNO FP Equity	RENAULT SA	13996	5.3	3.9	9.6	0.4	2.2	9.0
UG FP Equity	PEUGEOT SA	2758	N/A	8.5	8.6	0.2	-1.4	4.3
HKD (12 securities)								
Average	Average	4274	11.1	8.5	19.4	1.6	7.7	17.7
175 HK Equity	GEELY	2487	9.2	7.8	6.0	1.5	6.2	17.5
2238 HK Equity	GAC	5706	8.1	6.5	51.6	1.0	10.3	15.6
2333 HK Equity	GWM	7085	10.0	8.9	7.0	3.5	16.1	25.6
881 HK Equity	ZHONGSHENG	2374	11.5	8.0	8.0	2.1	4.9	21.8
3808 HK Equity	SINOTRUK	1520	12.1	9.9	6.8	0.5	1.9	5.4
2338 HK Equity	WEICHAI	5312	7.3	6.3	5.5	1.5	9.8	27.0
1122 HK Equity	QINGLING	566	9.8	9.2		0.5	3.4	4.9
1211 HK Equity	BYD	5254	31.8	19.5	11.9	1.2	2.3	7.0
200625 CH	CHANGAN-B	3140	8.3	5.3	62.4	0.7	1.1	7.6
200550 CH	JIANGLING-B	1842	5.4	4.8	2.5	1.4	13.5	27.8
1114 HK Equity	BRILLIANCE	4555	12.5	9.7	48.8	4.2	13.9	27.2
489 HK Equity	DONGFENG	11442	6.6	5.9	2.9	1.6	9.2	25.0
TTMT IN Equity	TATA MOTORS	12447	41.5	34.3	3.8	2.3	11.0	52.1
JPY (10 securities)								
Average	Average	30557	N/A	N/A	6.0	1.0	1.3	3.5
7201 JP Equity	NISSAN	43171	N/A	N/A	5.8	1.0	3.1	11.2
7203 JP Equity	TOYOTA	139392	N/A	N/A	10.3	1.0	0.9	2.7
7267 JP Equity	HONDA	59022	N/A	N/A	7.7	1.0	1.8	4.8
7269 JP Equity	SUZUKI	10673	N/A	N/A	2.2	0.9	2.4	5.5
7261 JP Equity	MAZDA	3666	N/A	N/A	7.1	0.6	-5.8	-24.0
6902 JP Equity	DENSO	30641	N/A	N/A	4.4	1.1	2.6	4.5
7270 JP Equity	FUJI HEAVY	6439	N/A	N/A	3.9	1.1	3.0	8.9
7272 JP Equity	YAMAHA	3189	N/A	N/A	7.0	0.8	1.3	9.7
7205 JP Equity	HINO	4221	N/A	N/A	5.1	1.6	2.1	8.1
7211 JP Equity	MITSUBISHI	5160	N/A	N/A	6.1	N/A	1.8	N/A
KRW (2 securities)								
Average	Average	37622	6.8	6.4	6.3	1.8	9.8	25.9
000270 KS	KIA MOTORS	27456	7.0	6.5	5.5	2.3	12.1	29.1
005380 KS	HYUNDAI	47789	6.5	6.3	7.1	1.4	7.5	22.7
SEK (2 securities)								
Average	Average	20490	11.9	9.9	7.4	2.4	6.3	25.9
VOLVB SS	VOLVO	27272	10.5	9.2	7.4	2.0	5.1	22.5
SCVA SS	SCANIA	13707	13.2	10.7	N/A	2.8	7.4	29.2
USD (4 securities)								
Average	Average	34517	8.6	7.4	7.2	1.7	6.3	20.9
F US Equity	FORD	35623	7.4	6.3	9.9	2.1	10.1	
DDAIF US	DAIMLER AG	55646	8.0	7.1		1.1	3.9	14.9
PCAR US	PACCAR	14009	12.2	10.9	9.8	2.5	7.1	19.4
GM US Equity	GENERAL MOTORS	32791	6.7	5.3	2.0	1.1	4.0	28.3

Source: Bloomberg, Phillip Securities

FYE DEC	FY09	FY10	FY11	FY12F	FY13F
<b>Valuation Ratios</b>					
P/E (X), adj.	12.2	11.3	10.1	7.6	6.4
P/B (X)	2.3	1.9	1.6	1.3	1.2
Dividend Yield (%)	1.0%	1.2%	1.3%	1.4%	1.7%
<b>Per share data (RMB)</b>					
EPS, (Basic)	0.171	0.186	0.207	0.275	0.327
EPS, (Diluted)	0.167	0.171	0.192	0.252	0.297
DPS	0.020	0.026	0.028	0.030	0.035
BVPS	0.92	1.09	1.29	1.57	1.71
<b>Growth &amp; Margins (%)</b>					
<b>Growth</b>					
Revenue	NA	42.9%	4.3%	13.1%	14.5%
EBIT	NA	29.5%	11.6%	19.5%	17.1%
Net Income, adj.	NA	15.7%	12.8%	33.1%	18.8%
<b>Margins</b>					
Gross margin	18.1%	18.4%	18.2%	18.2%	18.7%
EBIT margin	11.8%	10.7%	11.4%	12.1%	12.4%
Net Profit Margin	8.4%	6.8%	7.4%	8.7%	9.0%
<b>Income Statement (RMB mn)</b>					
<b>Revenue</b>	<b>14,069</b>	<b>20,099</b>	<b>20,965</b>	<b>23,702</b>	<b>27,129</b>
<b>Gross profit</b>	2,541	3,700	3,820	4,321	5,065
EBIT	1,657	2,145	2,394	2,862	3,351
Profit before tax	1,550	1,900	2,183	2,594	3,064
<b>Tax</b>	<b>(231)</b>	<b>(351)</b>	<b>(467)</b>	<b>(516)</b>	<b>(585)</b>
Profit for the period	1,319	1,550	1,716	2,078	2,479
Minority interests	(136)	(181)	(172)	(23)	(37)
Total capital share	6,927	7,363	7,450	7,466	7,466
<b>Net profit</b>	<b>1,183</b>	<b>1,368</b>	<b>1,543</b>	<b>2,055</b>	<b>2,442</b>

Source: PSR



**PSR Rating System**

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
< -20%	Sell	5

**Remarks**

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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Total Return	Recommendation	Rating	Remarks
>+20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20% upside from the current price
-5% to +5%	Neutral	3	Trade within $\pm$ 5% from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20% downside from the current price

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**Contact Information (Regional Member Companies)**

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**SINGAPORE**

**Phillip Securities Pte Ltd**  
Raffles City Tower  
250, North Bridge Road #06-00  
Singapore 179101  
Tel : (65) 6533 6001  
Fax : (65) 6535 6631  
Website: [www.poems.com.sg](http://www.poems.com.sg)

**HONG KONG**

**Phillip Securities (HK) Ltd**  
Exchange Participant of the Stock Exchange of Hong Kong  
11/F United Centre 95 Queensway  
Hong Kong  
Tel (852) 22776600  
Fax (852) 28685307  
Websites: [www.phillip.com.hk](http://www.phillip.com.hk)

**INDONESIA**

**PT Phillip Securities Indonesia**  
ANZ Tower Level 23B,  
Jl Jend Sudirman Kav 33A  
Jakarta 10220 – Indonesia  
Tel (62-21) 57900800  
Fax (62-21) 57900809  
Website: [www.phillip.co.id](http://www.phillip.co.id)

**THAILAND**

**Phillip Securities (Thailand) Public Co. Ltd**  
15th Floor, Vorawat Building,  
849 Silom Road, Silom, Bangrak,  
Bangkok 10500 Thailand  
Tel (66-2) 6351700 / 22680999  
Fax (66-2) 22680921  
Website [www.phillip.co.th](http://www.phillip.co.th)

**UNITED KINGDOM**

**King & Shaxson Capital Limited**  
6th Floor, Candlewick House,  
120 Cannon Street,  
London, EC4N 6AS  
Tel (44-20) 7426 5950  
Fax (44-20) 7626 1757  
Website: [www.kingandshaxson.com](http://www.kingandshaxson.com)

**AUSTRALIA**

**PhillipCapital Australia**  
Level 37, 530 Collins Street,  
Melbourne, Victoria 3000, Australia  
Tel (613) 96298380  
Fax (613) 96148309  
Website: [www.phillipcapital.com.au](http://www.phillipcapital.com.au)

**MALAYSIA**

**Phillip Capital Management Sdn Bhd**  
B-3-6 Block B Level 3 Megan Avenue II,  
No. 12, Jalan Yap Kwan Seng, 50450  
Kuala Lumpur  
Tel (603) 21628841  
Fax (603) 21665099  
Website: [www.poems.com.my](http://www.poems.com.my)

**JAPAN**

**PhillipCapital Japan K.K.**  
Nagata-cho Bldg.,  
8F, 2-4-3 Nagata-cho,  
Chiyoda-ku, Tokyo 100-0014  
Tel (81-3) 35953631  
Fax (81-3) 35953630  
Website: [www.phillip.co.jp](http://www.phillip.co.jp)

**CHINA**

**Phillip Financial Advisory (Shanghai) Co. Ltd**  
No 550 Yan An East Road,  
Ocean Tower Unit 2318,  
Postal code 200001  
Tel (86-21) 51699200  
Fax (86-21) 63512940  
Website: [www.phillip.com.cn](http://www.phillip.com.cn)

**FRANCE**

**King & Shaxson Capital Limited**  
3rd Floor, 35 Rue de la Bienfaisance 75008  
Paris France  
Tel (33-1) 45633100  
Fax (33-1) 45636017  
Website: [www.kingandshaxson.com](http://www.kingandshaxson.com)

**UNITED STATES**

**Phillip Futures Inc**  
141 W Jackson Blvd Ste 3050  
The Chicago Board of Trade Building  
Chicago, IL 60604 USA  
Tel +1.312.356.9000  
Fax +1.312.356.9005