

# Geely (175.HK)

## August Sales review: “two good and two bad”

Hong Kong | Automobile | Update Report

2 October 2015

- In August, Geely sold 31,754 units, up 15% yoy and 7% mom. In the first 8 months in 2015, the total sales volume amounted to 313,200 units, up 33% compared to the same period last year which reached 70% of the total sales target (450000) for the year. The new models effect and low cardinal number are major causes.

- Specifically, the sales of Geely in August demonstrated “two pieces of good news and two pieces of bad news”:

- The overall automobile market in China downturned 3.4% in August. The growth rate of Geely’s sales volume was far better than most of its peers.

- The Company’s sedan, Geely GC9, which ranks highest-end on the top of the Company’s product list, recorded steady growth in sales volume since launched in the market this year, with encouraging sale forecast.

While two pieces of potential bad news are demonstrated by:

- The sales volume of SUVs dropped amid the growth in popularity of SUVs in China.

- There is still no sign of recovery in Geely’s overseas markets.

- In 2015H1, Geely recorded growth in revenue of 36% to RMB13.8 billion; while net profit grew 26% yoy to RMB1.4 billion. The higher rate of growth reflected the trend of sale turnover recovery and it may also related to lower comparison benchmark last year. Business result in 2015H1 was similar to the year before last year. Operation efficiency has been improved. The gross profit margin dropped 2.7 ppts yoy, to 17.6%.

- Benefitted from the launch of higher-priced vehicles, the average unit price in H1 increased 10%. The Company has promised to introduce 5 new vehicle models in the coming 12 months, including two models of SUVs, one cross section vehicle and new energy vehicle. We think the competitiveness of the Company’s vehicles has apparently improved, and the Company has been fully equipped in the aspect of new energy, therefore we are optimistic on the expansion of the Company’s market share in the future.

### Investment Thesis

We maintain the expectation of EPS in 2015/2016 to RMB0.28 and RMB0.32 respectively. We kept the target price of HKD4.45 unchanged, corresponding to 13.1x and 11.4x of eP/E in 2015/2016 respectively and granted a rating of “Buy”. (Closing price as at 30 September 2015)

### BUY (Upgrade)

CMP: HKD 3.69

(Closing price as at 30 September 2015)

TARGET: HKD 4.45 (+21%)

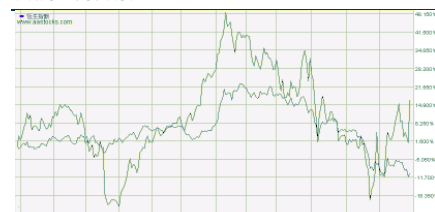
#### COMPANY DATA

O/S SHARES (MN) :	8801
MARKET CAP (HKD MN) :	32478
52 - WK HI/LO (HKD):	4.72 / 2.4

#### SHARE HOLDING PATTERN, %

Proper Glory Holding Inc	27.98
Zhejiang Geely Automobile Company Ltd	8.82

#### PRICE VS. HSI



Source: Phillip Securities (HK) Research

#### KEY FINANCIALS

CNY mn	FY13	FY14	FY15E	FY16E
Net Sales	28,708	21,738	27,448	32,165
Net Profit	2,663	1,431	2,460	2,823
EPS, CNY	0.32	0.16	0.28	0.32
P/E, x	9.0	17.7	10.7	9.3
BVPS, CNY	1.93	1.96	2.09	2.31
P/BV, x	1.5	1.5	1.4	1.3
DPS (CNY)	0.04	0.02	0.04	0.04
Div. Yield (%)	1.5%	0.7%	1.2%	1.4%

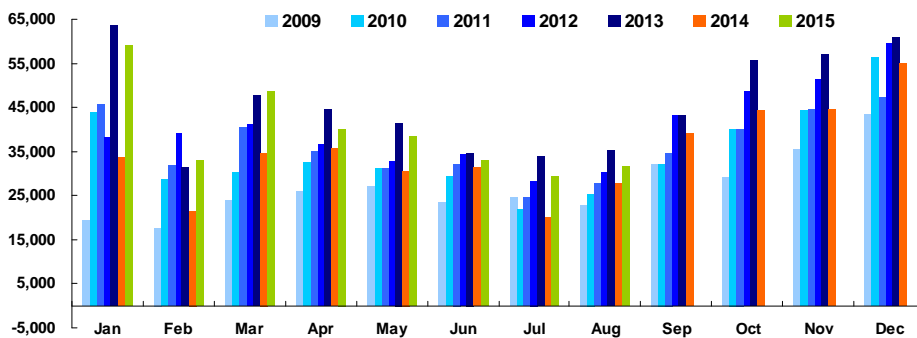
Source: Company reports, Phillip Securities Est.

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**Sales volume in August up 15%; while sales in first eight months up 30+%**

According to the information of sales volume recently released by Geely Automobile, the total sales volume of the Company for the month of August 2015 recorded 31,754 units, an increase of approximately 15% over the same period last year and up approximately 7% from July 2015. The overall accumulated sales volume in the first eight months of 2015 amounted to 313,200 units, up about 33% from the same period last year and achieving 70% of the full year sales volume target of 450,000 units in 2015. We consider the launch of new car models and the low benchmark recorded last year are the main causes of growth in sales volume.

**Geely’s monthly sales**



Source: Company, Phillip Securities Hong Kong Research

**Sales data demonstrated “two pieces of good news and two pieces of bad news”**

Specifically, the sales data of Geely Automobile in August demonstrated “two pieces of good news and two pieces of bad news”:

1) The overall automobile market in China downturned 3.4% in August. The growth rate of Geely’s sales volume was far better than most of its peers. In particular the growth rate of its sales in domestic was robust, with sales volume up 29% yoy to 30,000 units, in which the combined sales volume of “EC7” and “New Emgrand” recorded 11,783 units, up 11% yoy. In the previous eight months, the Company’s sales volume in domestic market surged 50% yoy to 287,000 units; even increased 12% when compared to the same period in 2013 during which the comparison benchmark was higher.

2) The Company’s sedan, Geely GC9, which ranks highest-end on the top of the Company’s product list, recorded steady growth in sales volume since launched in the market this year, with encouraging sale forecast. It was launched in April 2015, during which marked the sale volume of 839 units, followed by 2000 units in May, 2750 units in June, 3201 units in July and 3539 units in August. In our views, Geely GC9, being a high-end vehicle under the Company’s self-owned brand with unit price set between 120,000 to 180,000, achieved such handsome sales volume is rewarding. If such good trend can be maintained in the future, it indicates that the Company has the great potentials to upgrade itself.

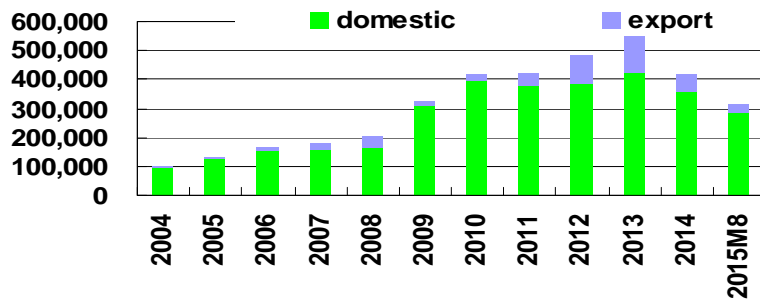
While two pieces of potential bad news are demonstrated by:

1) The sales volume of Geely’s SUVs unsurprisingly dropped amid the growth in popularity of SUVs in China. The aggregate sales volume of three of the Company’s SUVs namely GX7, SX7 and GX9 merely recorded 3618 units, down 21% yoy. Based on the industrial data, the overall sales volume of SUVs in China market surged 48% in August. It shows that Geely would have to enhance its competitiveness in the business segment of SUVs.

2) There is still no sign of recovery in Geely’s overseas markets. In August, sales recorded in the Company’s overseas markets dropped 61% yoy to 1748 units. The

economy of overseas markets, especially Eastern Europe, still not yet recovered to the prosperity level before the conflict. We noticed that the record high of Geely's export volume amounted to 14,000 units per month (recorded in the yearend of 2013). The total export volume in the first eight months of 2015 was 26,000 units, declined nearly 40% yoy and dropped 66% when compared to the same period in 2013.

**Geely's sales by markets**



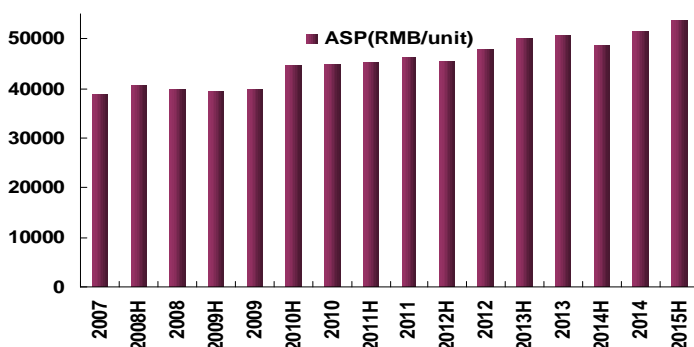
Source: Company, Phillip Securities Hong Kong Research

**2015H1 results improved 26% yoy, same as the same period in 2013**

In 2015H1, Geely recorded growth in revenue of 36% to RMB13.8 billion; while net profit grew 26% yoy to RMB1.4 billion. The higher rate of growth reflected the trend of sale turnover recovery and it may also related to lower comparison benchmark last year. Business result in 2015H1 was similar to the year before last year. Operation efficiency has been improved. Newly launched vehicles in the period under review were not yet benefitted from economies of scale. The gross profit margin dropped 2.7 ppts yoy, to 17.6%. Since the promotion cost is usually higher in the initial stage of newly launched vehicles, and the downward price competition pressure in the automobile market is quite high, the cost of sales in H1 surged 40% or RMB225 million.

Benefitted from the launch of higher-priced vehicles, the average unit price in H1 increased 10%. The Company has promised to introduce 5 new vehicle models in the coming 12 months, including two models of SUVs, one cross section vehicle and new energy vehicle. Looking forward, the Company mentioned the impact from stricter emission standard, regulation in the industry and restriction on the new license on self-owned brands would be higher. Meanwhile, higher competition pressure was incurred on the Company's self-owned brands when more international brands participated in the price war. However, we think the competitiveness of the Company's vehicles has apparently improved, and the Company has been fully equipped in the aspect of new energy, therefore we are optimistic on the expansion of the Company's market share in the future.

**Geely's ASP**



Source: Company, Phillip Securities Hong Kong Research

**Investment Thesis**

We maintain the expectation of EPS in 2015/2016 to RMB0.28 and RMB0.32 respectively. We kept the target price of HKD4.45 unchanged, corresponding to 13.1x and 11.4x of eP/E in 2015/2016 respectively and granted a rating of “Buy”. (Closing price as at 30 September 2015)

## Financials

FYE DEC	FY11	FY12	FY13	FY14	FY15F	FY16F
<b>Valuation Ratios</b>						
P/E (X), adj.	14.4	10.8	9.0	17.7	10.7	9.3
P/B (X)	2.3	1.8	1.5	1.5	1.4	1.3
Dividend Yield (%)	0.9%	1.1%	1.5%	0.7%	1.2%	1.4%
Dividend payout ratio (%)	14.6%	11.8%	13.9%	12.3%	12.9%	13.5%
<b>Per share data (RMB)</b>						
EPS, (Basic)	0.207	0.271	0.317	0.163	0.280	0.321
EPS, (Diluted)	0.192	0.263	0.303	0.163	0.279	0.320
DPS	0.028	0.031	0.042	0.020	0.036	0.043
BVPS	1.29	1.59	1.93	1.96	2.09	2.31
<b>Growth &amp; Margins (%)</b>						
<b>Growth</b>						
Revenue	4.3%	17.5%	16.6%	-24.3%	26.3%	17.2%
EBIT	11.6%	13.8%	22.8%	-41.2%	66.6%	13.3%
Net Income, adj.	12.8%	32.2%	30.5%	-46.3%	72.0%	14.8%
<b>Margins</b>						
Gross margin	18.2%	18.5%	20.1%	18.2%	18.4%	19.1%
EBIT margin	11.4%	11.1%	11.6%	9.0%	11.9%	11.5%
Net Profit Margin	7.4%	8.3%	9.3%	6.6%	9.0%	8.8%
<b>Key ratios (%)</b>						
ROE	17.5%	18.2%	18.3%	8.5%	12.7%	13.4%
ROA	5.6%	6.5%	7.9%	3.8%	5.9%	6.2%
<b>Income Statement (RMB mn)</b>						
Revenue	20,965	24,628	28,708	21,738	27,448	32,165
Gross profit	3,820	4,559	5,766	3,963	5,050	6,127
EBIT	2,394	2,724	3,344	1,967	3,277	3,713
Profit before tax	2,183	2,529	3,304	1,943	3,237	3,664
Tax	(467)	(479)	(624)	(494)	(745)	(806)
Profit for the period	1,716	2,050	2,680	1,449	2,493	2,858
Minority interests	(172)	(10)	(17)	(19)	(32)	(34)
Total capital share	7,450	7,466	8,392	8,801	8,801	8,801
<b>Net profit</b>	<b>1,543</b>	<b>2,040</b>	<b>2,663</b>	<b>1,431</b>	<b>2,460</b>	<b>2,823</b>

Source: PSR

(Financial figures as at 30 September 2015)

**PHILLIP RESEARCH STOCK SELECTION SYSTEMS**

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

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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