

# Geely (175.HK)

## Feb sales figures review

Hong Kong | Automobile | Update Report

24 March 2016

### Three Major Causes for the Sharp Decline of Sales in February

Recently, Geely Auto has released the latest data of its sales; in February, it sold 33,327 units, up by 1% on a year-on-year basis, while down 45% from the last month. We believe that the sharp decline from last month can be attributed to the following three major factors:

- 1) There were fewer days in February than in other months;
- 2) There were fewer work days in February than in January due to the Spring Festival holiday;
- 3) Under the influence of the Spring Festival holiday in February, people preferred large-space vehicles, such as SUVs, when they travelled back to their hometowns or took trips, but as Geely Auto had sedans as its main models, it was less competitive than its peers in terms of SUVs.

The above 3 points explained why Geely Auto had an unsatisfactory performance in February's month-on-month growth rates, and we have found that this is also a regular pattern for the Geely Auto's data in the previous years.

### Baton Passed to the New "Jingang", Breaking Domestic Sales Record

In the first two months of 2016, Geely Auto had a cumulative sales volume of 93,420 units, increasing by 2% on year-on-year basis. While its export volume fell by 41% to 4,070 units on year-on-year basis, the domestic sales volume reached the highest level of 89,350 units.

In January and February, the combined sales volume of EC7 and the new Emgrand increased by 2% on year-on-year basis to 36,748 units; the combined sales volumes of SUV models, including GX7, SX7, and GX9, declined by 36% on year-on-year basis to 7,735 units; the combined sales of Yuan Jing and its new version jumped by 22% to 23,025 units; the combined sales volume of Jingang and its new version received a facelift rose by 35% to 15,565 units. In last April, Geely Auto unveiled its first B-level sedan, GC9, and the sales of the model increased month by month. In January and February this year, 6,001 and 2,615 units were sold, respectively.

In late March this year, we will introduce Bo Yue, a new SUV model. Besides, a small SUV will be brought to the public in the second half of this year, which will help Geely Auto to gain more profits from the prosperous SUV market in China. Jingang with a facelift is expected to get the baton from Emgrand and bring a new driving power for the 2016 sales.

### Investment Thesis

We shall maintain the rating of "Accumulate" but lift the company's target price at HK\$ 4.05, equivalent to 11x estimated P/E ratio of 2016. (Closing price as at 23 March 2016)

### Accumulate (Maintain)

CMP: HKD 3.76

(Closing price as at 23 March 2016)

TARGET: HKD 4.05 (+8%)

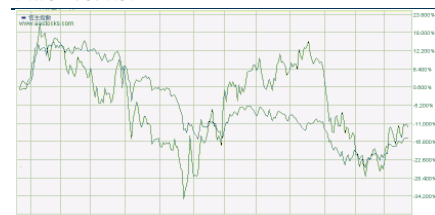
#### COMPANY DATA

O/S SHARES (MN) :	8801
MARKET CAP (HKD MN) :	33095
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	2,210	2,752
EPS, CNY	0.32	0.16	0.25	0.31
P/E, x	9.2	18.0	12.4	10.0
BVPS, CNY	1.93	1.96	2.08	2.29
P/BV, x	1.5	1.5	1.5	1.4
DPS (CNY)	0.04	0.02	0.03	0.04
Div. Yield (%)	1.4%	0.7%	1.0%	1.3%

Source: Company reports, Phillip Securities Est.

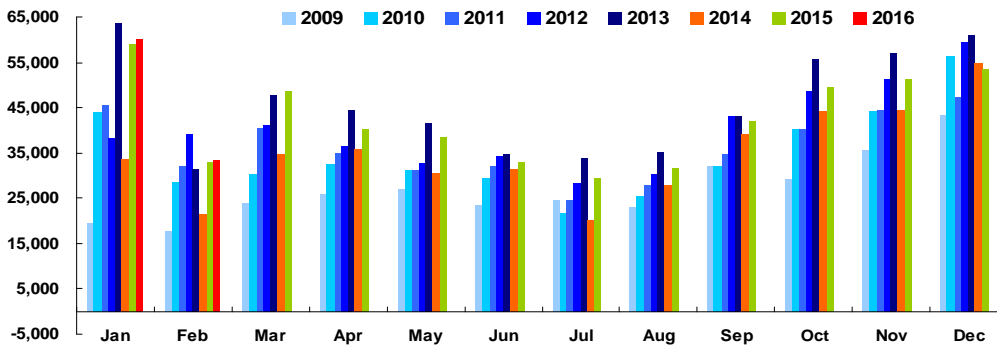
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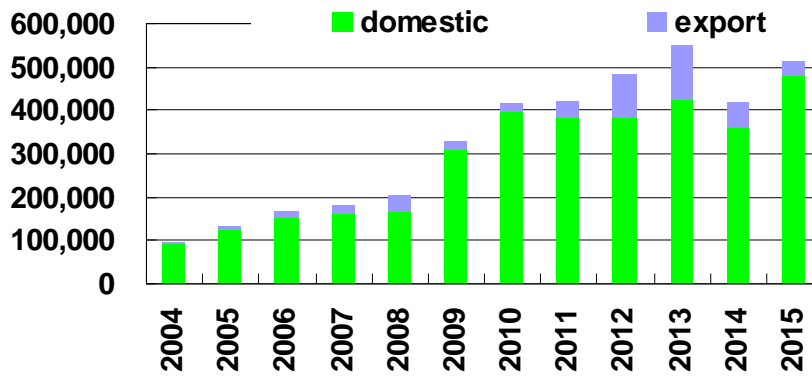
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Geely's monthly sales



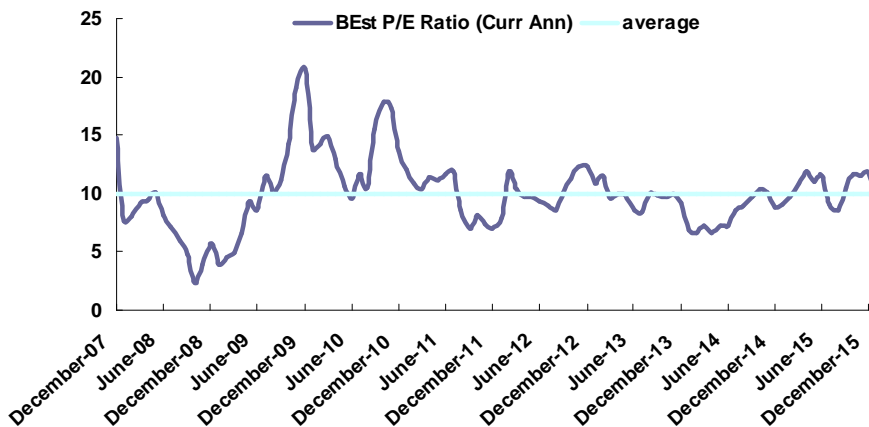
Source: Company, Phillip Securities Hong Kong Research

Geely's sales by markets



Source: Company, Phillip Securities Hong Kong Research

Geely's Forward P/E in ten years



Source: Bloomberg, Phillip Securities Hong Kong Research

## Financials

FYE DEC	FY11	FY12	FY13	FY14	FY15F	FY16F
<b>Valuation Ratios</b>						
P/E (X), adj.	14.6	11.0	9.2	18.0	12.4	10.0
P/B (X)	2.4	1.9	1.5	1.5	1.5	1.4
Dividend Yield (%)	0.9%	1.0%	1.4%	0.7%	1.0%	1.3%
Dividend payout ratio (%)	14.6%	11.8%	13.9%	12.3%	12.8%	12.8%
<b>Per share data (RMB)</b>						
EPS, (Basic)	0.207	0.271	0.317	0.163	0.251	0.313
EPS, (Diluted)	0.192	0.263	0.303	0.163	0.250	0.312
DPS	0.028	0.031	0.042	0.020	0.032	0.040
BVPS	1.29	1.59	1.93	1.96	2.08	2.29
<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%	55.8%	21.2%
Net Income, adj.	12.8%	32.2%	30.5%	-46.3%	54.5%	24.5%
<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%	11.2%	11.5%
Net Profit Margin	7.4%	8.3%	9.3%	6.6%	8.1%	8.6%
<b>Key ratios (%)</b>						
ROE	17.5%	18.2%	18.3%	8.5%	12.4%	14.3%
ROA	5.6%	6.5%	7.9%	3.8%	5.8%	6.6%
<b>Income Statement (RMB mn)</b>						
<b>Revenue</b>	<b>20,965</b>	<b>24,628</b>	<b>28,708</b>	<b>21,738</b>	<b>27,448</b>	<b>32,165</b>
<b>Gross profit</b>	3,820	4,559	5,766	3,963	5,050	6,127
EBIT	2,394	2,724	3,344	1,967	3,064	3,713
Profit before tax	2,183	2,529	3,304	1,943	2,964	3,624
<b>Tax</b>	<b>(467)</b>	<b>(479)</b>	<b>(624)</b>	<b>(494)</b>	<b>(711)</b>	<b>(819)</b>
Profit for the period	1,716	2,050	2,680	1,449	2,252	2,805
Minority interests	(172)	(10)	(17)	(19)	(43)	(53)
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>2,210</b>	<b>2,752</b>

Source: PSR

(Financial figures as at 22 March 2016)

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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

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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