

GAC (2238.HK)

Robust FY2016Q1 Growth Powered by Significant Increase in Sales

Hong Kong | Automobile | Update Report

5 MAY 2016

BUY (Maintain)

CMP: HKD 9.07

(Closing price as at 3 May 2016)

TARGET: HKD 12.00 (+32%)

Robust Growth in the First Quarter

The GAC Group has published its financial statement of Q1, which reveals a revenue of RMB10.14 billion, up 88% year-on-year. Net profit grew by 263.7% Y-o-Y to RMB1.927 billion, a record high in quarterly profits after the company was listed. The dramatic growth in business results can be directly attributed to the following:

First, the rapid growth of auto sales of the company and the continuing scale effect;

Second, the rapid growth of sales of associated enterprises, whose contribution to investment income increased greatly on a year-on-year basis;

Third, the net profit of Q1 last year were only RMB530 million, which was at the lowest point of the whole year's business results.

Significant Increase in Sales Powered by Three Carriages

In Q1, GAC Group recorded a remarkable increase by 35.8% Y-o-Y in terms of total sales of vehicles, and the total sales of several passenger vehicle enterprises that contributed to a major part of profits increased by as much as 48%. Japanese vehicles represented by Toyota and Honda, American vehicles represented by Jeep, and GAC's own brands are three carriages which have the highest growth speed. The sales of Guangqi Honda, GAC Toyota, GAC Fiat, and GAC's self-developed brand rose by 27%, 22%, 202%, and 140% respectively on a year-on-year basis. Models that contributed significantly to sales growth included: Vezele and Fit of Guangqi Honda, Levin and Highlander of GAC Toyota, Trumpchi GS4, GAC's self-developed brand, and GAC Fiat's Cherokee.

Last Year's Results Beat Expectation with Each Business Welcoming their Harvest

The revenue and net profit of GAC Group in 2015 respectively increased by 31.4% and 31.9% to RMB29.42 billion and RMB4.212 billion. During the period, GAC self-developed brands successfully made a turn from loss to profit. The JVs' contribution to its investment income increased by 12.9% to RMB4.7 billion in 2015. These are two drivers of the company's operating results that beat expectations.

Investment Thesis

In the aspect of new vehicles, GAC Toyota plans to introduce Lerhero, Guangqi Honda to introduce Acura CDX, a hybrid version of Accord, and Avencier, a large SUV model. These models are expected to be launched in the second half of this year. GAC Fiat-Chrysler's Jeep model and its capacity are on a rise. Together with the multiple new-energy driven models that will be introduced by Trumpchi, the company's profitability will go into the fast lane.

Valuation

Therefore, we adjust the estimate of the company's EPS to RMB 1.1/1.2 in 2016/2017, and target price to HKD 12, equivalent to 9.1/8.4x P/E ratio in 2016/2017, and we shall maintain the "Buy" rating. (Closing price as at 3 May 2016)

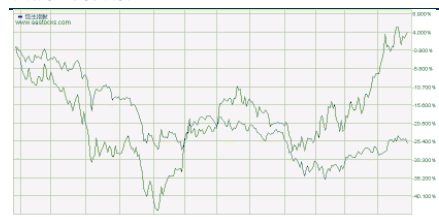
COMPANY DATA

O/S SHARES (MN) :	6435
MARKET CAP (HKD MN) :	20075
52 - WK HI/LO (HKD):	9.35 / 4.71

SHARE HOLDING PATTERN, %

Guangzhou Automobile Industry Group Co., Ltd	60.80
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PRICE VS. HSI



Source: Phillip Securities (HK) Research

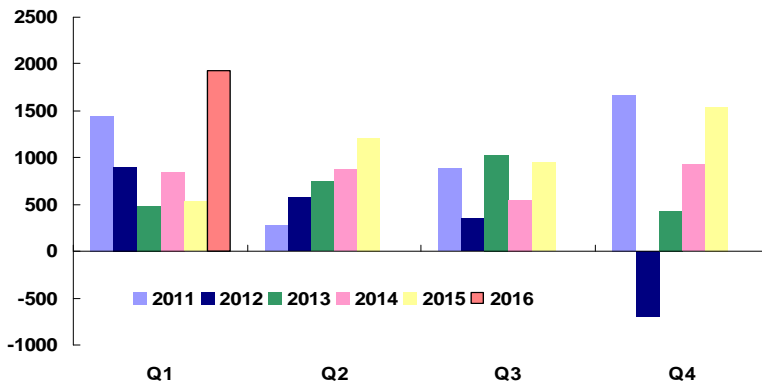
KEY FINANCIALS

CNY mn	FY14	FY15	FY16E	FY17E
Net Sales	22,376	29,418	36,082	40,314
Net Profit	3,185	4,212	7,102	7,732
EPS, CNY	0.49	0.65	1.10	1.20
P/E, x	14.4	11.6	6.9	6.4
BVPS, CNY	5.50	6.01	6.86	7.48
P/BV, x	1.3	1.3	1.1	1.0
DPS (CNY)	0.16	0.20	0.32	0.36
Div. Yield (%)	2.3%	2.6%	4.2%	4.7%

Source: Company reports, Phillip Securities Est.

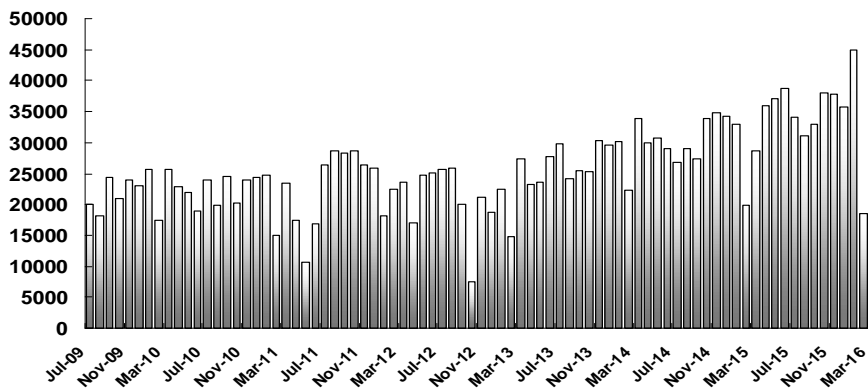
Research Analyst
ZhangJing
 (+ 86 51699400-103)
 zhangjing@phillip.com.cn

GAC's net profit by quarters (RMB mil)



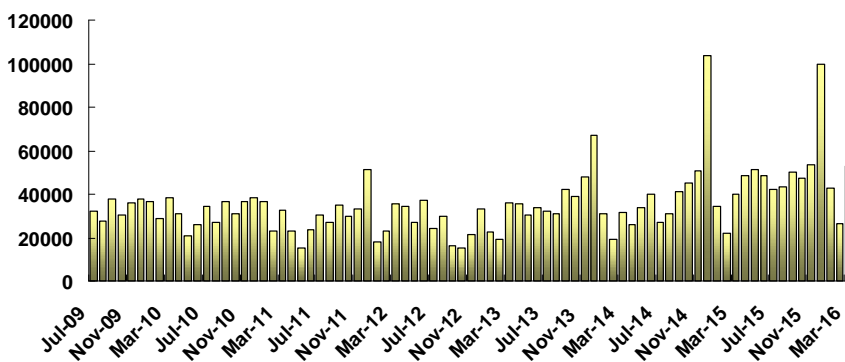
Source: Company, Phillip Securities Hong Kong Research

GAC Toyota monthly sales (units)



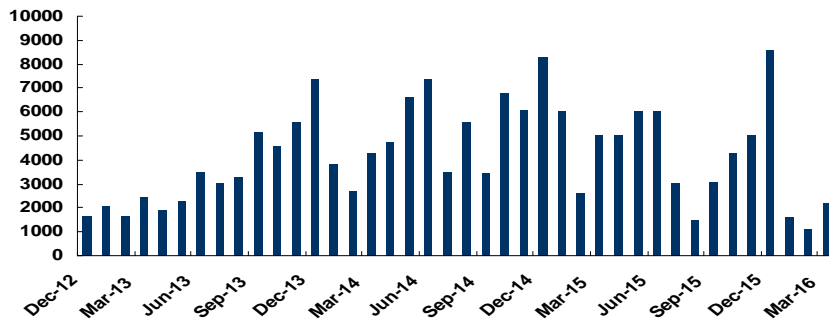
Source: Company, Phillip Securities Hong Kong Research

GAC Honda monthly sales (units)



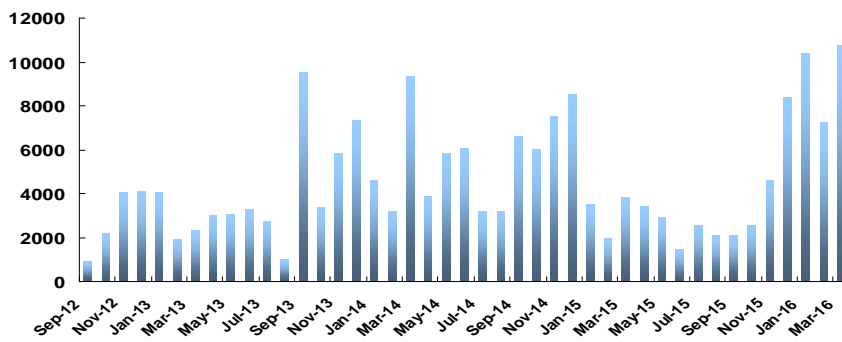
Source: Company, Phillip Securities Hong Kong Research

GAC Mitsubishi monthly sales (units)



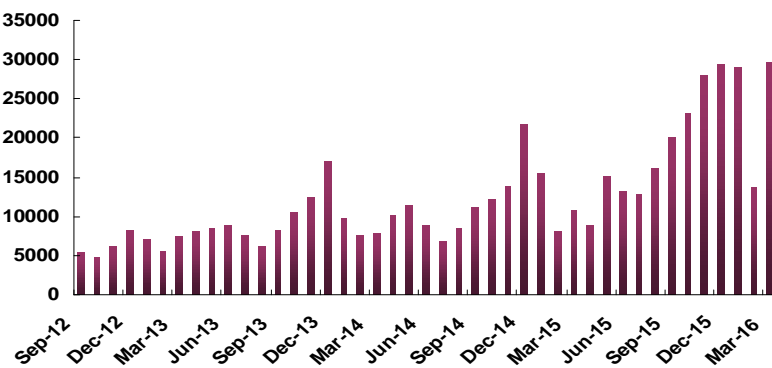
Source: Company, Phillip Securities Hong Kong Research

GAC Fiat- Chrysler monthly sales (units)



Source: Company, Phillip Securities Hong Kong Research

GAC Self-brand monthly sales (units)



Source: Company, Phillip Securities Hong Kong Research

Financials

FYE DEC	FY11	FY12	FY13	FY14	FY15	FY16F	FY17F
Valuation Ratios							
P/E (X), adj.	10.6	41.2	17.2	14.4	11.6	6.9	6.4
P/B (X)	1.5	1.5	1.4	1.3	1.3	1.1	1.0
Dividend payout Yield (%)	28.8%	51.1%	38.8%	32.3%	30.6%	29.0%	30.0%
Dividend Yield (%)	2.7%	1.2%	2.3%	2.3%	2.6%	4.2%	4.7%
Per share data (RMB)							
EPS, reported	0.69	0.18	0.41	0.49	0.65	1.10	1.20
EPS, adj.	0.69	0.18	0.41	0.49	0.65	1.10	1.20
DPS	0.20	0.09	0.16	0.16	0.20	0.32	0.36
BVPS	4.75	4.84	5.18	5.50	6.01	6.86	7.48
Growth & Margins (%)							
Growth							
Revenue	25.6%	18.0%	45.2%	18.9%	31.5%	22.7%	11.7%
EBIT	-27.5%	-70.9%	134.6%	20.0%	39.8%	80.8%	9.9%
Net Income, adj.	-0.5%	-73.5%	133.9%	20.1%	32.2%	68.6%	8.9%
Margins							
Gross margin	3.9%	5.3%	10.6%	11.4%	11.7%	20.0%	20.5%
EBIT margin	37.3%	9.2%	14.9%	15.0%	16.0%	23.5%	23.1%
Net Profit Margin	38.9%	8.7%	14.1%	14.2%	14.3%	19.7%	19.2%
Key Ratios							
ROE (%)	15.6%	3.8%	8.2%	9.3%	11.4%	17.2%	16.8%
ROA (%)	10.3%	2.4%	4.9%	5.3%	6.5%	9.9%	9.7%
Income Statement (RMB mn)							
Revenue	10984	12964	18824	22376	29418.2	36082	40314
Gross profit	424	690	1994	2547	3444	7231	8268
EBIT	4098	1193	2798	3359	4696	8489	9332
Profit before tax	4057	1000	2629	3053	4386	8016	8831
Tax	110	65	-101	-126	-400	-764	-905
Profit for the period	4167	1065	2529	2926	3986	7252	7926
Minority interests	-105	-69	-124	-259	-226.02	150	194
Total capital share	6148	6435	6435	6435	6435	6436	6436
Net profit	4272	1134	2653	3185	4212	7102	7732

Source: PSR

(Financial figures as at 3 May 2016)

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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Contact Information (Regional Member Companies)
SINGAPORE
Phillip Securities Pte Ltd

250 North Bridge Road, #06-00 Raffles City Tower,
Singapore 179101

Tel : (65) 6533 6001 Fax: (65) 6535 3834

www.phillip.com.sg

INDONESIA
PT Phillip Securities Indonesia

ANZ Tower Level 23B, Jl Jend Sudirman Kav 33A,
Jakarta 10220, Indonesia

Tel (62) 21 5790 0800 Fax: (62) 21 5790 0809

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 2268 0999 Fax: (66) 2 2268 0921

www.phillip.co.th

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

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 (60) 3 2162 8841 Fax (60) 3 2166 5099

www.poems.com.my

CHINA
Phillip Financial Advisory (Shanghai) Co. Ltd.

No 436 Heng Feng Road, Green Tech Tower Unit 604
Shanghai 200 070

Tel (86) 21 5169 9400 Fax: (86) 21 6091 1155

www.phillip.com.cn

FRANCE
King & Shaxson Capital Ltd.

3rd Floor, 35 Rue de la Bienfaisance
75008 Paris France

Tel (33) 1 4563 3100 Fax : (33) 1 4563 6017

www.kingandshaxson.com

AUSTRALIA
PhillipCapital Australia

Level 12, 15 William Street,

Melbourne, Victoria 3000, Australia

Tel: (61) 3 9618 8238 Fax: (61) 3 9200 2277

www.phillipcapital.com.au

HONG KONG
Phillip Securities (HK) Ltd

11/F United Centre 95 Queensway Hong Kong

Tel (852) 2277 6600 Fax: (852) 2868 5307

www.phillip.com.hk

JAPAN
Phillip Securities Japan, Ltd

4-2 Nihonbashi Kabutocho, Chuo-ku
Tokyo 103-0026

Tel: (81) 3 3666 2101 Fax: (81) 3 3664 0141

www.phillip.co.jp

INDIA
PhillipCapital (India) Private Limited

No. 1, 18th Floor, Urmi Estate, 95 Ganpatrao Kadam Marg,
Lower Parel West, Mumbai 400013

Tel: (9122) 2300 2999 Fax: (9122) 6667 9955

www.phillipcapital.in

UNITED KINGDOM
King & Shaxson Ltd.

6th Floor, Candlewick House, 120 Cannon Street
London, EC4N 6AS

Tel (44) 20 7929 5300 Fax: (44) 20 7283 6835

www.kingandshaxson.com

SRI LANKA
Asha Phillip Securities Limited

Level 4, Millennium House, 46/58 Navam Mawatha,
Colombo 2, Sri Lanka

Tel: (94) 11 2429 100 Fax: (94) 11 2429 199

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