

Geely (175.HK)

Jan sales review

Hong Kong | Automobile | Update Report

22 February 2017

Strong Momentum Continues in January

Geely Automobile released its sales volume for January of 2017: The total sales volume soared by 71% yoy to 103,000 vehicles. Among them, the domestic sales volume soared by 75% yoy to 102,000 vehicles, accounting for a larger proportion of 99.03% of the total sales volume, while the export volume reached 994 vehicles, fell by 51% yoy. Geely's sales growth rate was much higher than the industry average and also higher than its several major industry counterparts.

Compared with the 60,000-odd-vehicle sales in the same period last year, the growth in January mainly owes to the sales of several new SUVs, with the sales of Boyue, Vision SUV and Emgrand GS amounting to 20,147, 10,226, and 10,333 vehicles, respectively. In addition, the robust sale of sedans of the new Emgrand, Vision and Emgrand GL contributed to the overall growth with 26,314, 14,716 and 10,208 vehicles, respectively.

The 2017 Target May be Outperformed Again

As noted in the 2017 sales target guidelines provided by the company's management, the annual sales will increase by 30% to 1 million vehicles. We therefore anticipate according to the current sales momentum that the company is very likely to exceed its target again with the annual growth rate rising to 50%. The reasons are as follows:

1) The main models have maintained robust sales. Last year, the demand of several popular models exceeded supply, and it will take at least several months to handle the order backlog.

2) The CMA platform, a product line which the company co-established with Volvo, will launch three new models under the brand-new high-end brand LYNK & CO this year, including a compact, slightly smaller SUV than Boyue in size, a sedan and a crossover model. It is expected that their selling prices will continue to climb.

Investment Thesis

We believe the new brand's release marks the official launch of Geely Automobile's advancing strategy, and the follow-up brand management and operation will bring both challenges and opportunities to the company. As the positive effect of acquiring Volvo began to emerge, Geely Auto's overall strength has been elevated to a new high. We are optimistic about its steady growth in medium and long term sales.

Considering the better-than-expected Jan sales we lift our forecast EPS and therefore we raise the target price to HK\$ 13.35, equivalent to 13.2x/9.5 estimated P/E ratio of 2017/2018. (Closing price as at 20 Feb 2017)

Accumulate (Downgrade)

CMP: HKD 11.14

(Closing price as at 20 Feb 2017)

TARGET: HKD 13.35 (+19.8%)

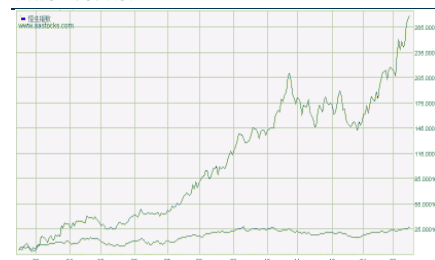
COMPANY DATA

O/S SHARES (MN) :	8801
MARKET CAP (HKD MN) :	99028
52 - WK HI/LO (HKD):	11.24/2.84

SHARE HOLDING PATTERN, %

Proper Glory Holding Inc	27.98
Zhejiang Geely Automobile Company Ltd	8.82

PRICE VS. HSI



Source: Phillip Securities (HK) Research

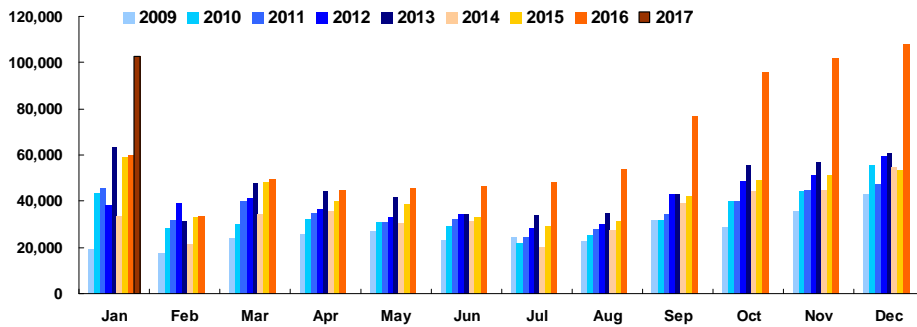
KEY FINANCIALS

CNY mn	FY14	FY15	FY16E	FY17E
Net Sales	21,738	30,138	52,850	95,862
Net Profit	1,431	2,261	4,602	7,997
EPS, CNY	0.16	0.26	0.52	0.91
P/E, x	54.1	36.3	19.0	11.0
BVPS, CNY	1.96	2.22	2.67	3.75
P/BV, x	4.5	4.2	3.7	2.7
DPS (CNY)	0.02	0.03	0.11	0.21
Div. Yield (%)	0.2%	0.3%	1.1%	2.1%

Source: Company reports, Phillip Securities Est.

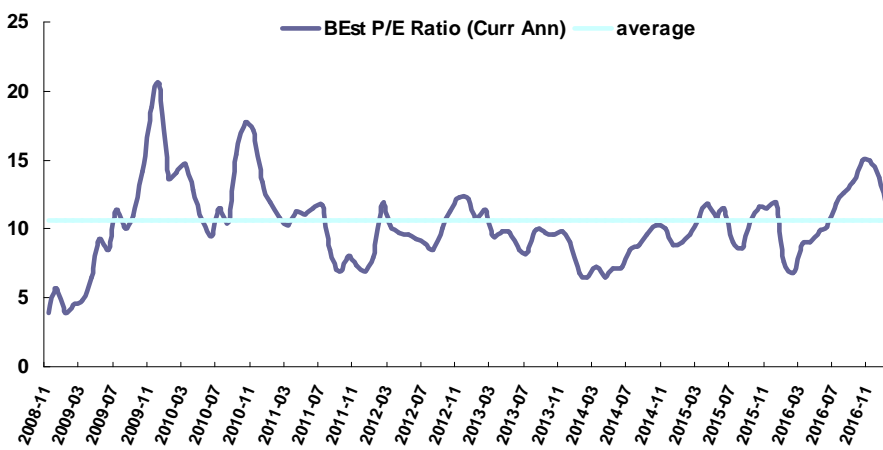
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Geely's monthly sales



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	FY15	FY16F	FY17F	FY18F
Valuation Ratios								
P/E (X), adj.	44.1	33.1	27.6	54.1	36.3	19.0	11.0	8.0
P/B (X)	7.1	5.6	4.5	4.5	4.2	3.7	2.7	2.0
Dividend Yield (%)	0.3%	0.3%	0.5%	0.2%	0.3%	1.1%	2.1%	2.8%
Dividend payout ratio (%)	14.6%	11.8%	13.9%	12.3%	12.5%	21.1%	23.1%	22.0%
Per share data (RMB)								
EPS, (Basic)	0.207	0.271	0.317	0.163	0.257	0.523	0.909	1.275
EPS, (Diluted)	0.192	0.263	0.303	0.163	0.257	0.522	0.908	1.274
DPS	0.028	0.031	0.042	0.020	0.032	0.110	0.210	0.280
BVPS	1.29	1.59	1.93	1.96	2.22	2.67	3.75	4.98
Growth & Margins (%)								
Growth								
Revenue	4.3%	17.5%	16.6%	-24.3%	38.6%	75.4%	81.4%	39.4%
EBIT	11.6%	13.8%	22.8%	-41.2%	46.5%	94.3%	73.3%	41.4%
Net Income, adj.	12.8%	32.2%	30.5%	-46.3%	58.0%	103.6%	73.8%	40.3%
Margins								
Gross margin	18.2%	18.5%	20.1%	18.2%	18.2%	18.7%	19.4%	19.9%
EBIT margin	11.4%	11.1%	11.6%	9.0%	9.6%	10.6%	10.1%	10.3%
Net Profit Margin	7.4%	8.3%	9.3%	6.6%	7.5%	8.7%	8.3%	8.4%
Key ratios (%)								
ROE	17.5%	18.2%	18.3%	8.5%	12.3%	21.1%	28.0%	29.2%
ROA	5.6%	6.5%	7.9%	3.8%	5.3%	9.4%	13.1%	14.4%
Income Statement (RMB mn)								
Revenue	20,965	24,628	28,708	21,738	30,138	52,850	95,862	133,653
Gross profit	3,820	4,559	5,766	3,963	5,471	9,883	18,549	26,557
EBIT	2,394	2,724	3,344	1,967	2,881	5,600	9,701	13,717
Profit before tax	2,183	2,529	3,304	1,943	2,875	5,598	9,697	13,713
Tax	(467)	(479)	(624)	(494)	(586)	(940)	(1,619)	(2,400)
Profit for the period	1,716	2,050	2,680	1,449	2,289	4,657	8,078	11,313
Minority interests	(172)	(10)	(17)	(19)	(28)	(55)	(81)	(92)
Total capital share	7,450	7,466	8,392	8,801	8,801	8,801	8,801	8,801
Net profit	1,543	2,040	2,663	1,431	2,261	4,602	7,997	11,222

Source: PSR

(Financial figures as at 20 February 2017)

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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