

# GAC (2238.HK)

## High-growth sales has set the tone of excellent result

Hong Kong | Automobile | Update Report

25 September 2017

- Soar of 60% in Earnings of H1 2017
- Growth in Q2 Decreased
- Both Independent & Joint Venture Continually Pushed the Company's profitability

### Investment Thesis and Valuation

We believe that the excellent sales result has set the tone of high-growth result for GAC in this year, and so we adjust the estimate of the company's EPS to RMB 1.64/2.08 in 2017/2018, and target price to HKD 24.65, equivalent to 12.7/10x P/E ratio in 2017/2018, and the "Buy" rating. (Closing price as at 21 Sep 2017)

### BUY (Upgrade)

CMP: HKD 19.06

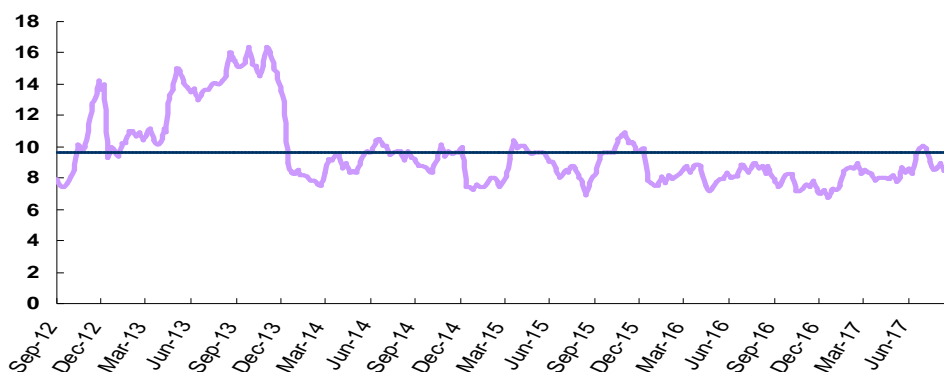
(Closing price as at 21 Sep 2017)

TARGET: HKD 24.65 (+29%)

#### COMPANY DATA

O/S SHARES (MN) :	6451
MARKET CAP (HKD MN) :	42186
52 - WK HI/LO (HKD):	18.92 / 8.93

### GAC's Forward P/E trend

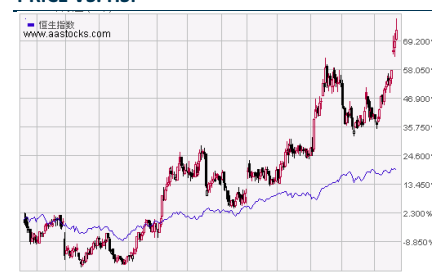


Source: Bloomberg, Phillip Securities Hong Kong Research

### SHARE HOLDING PATTERN, %

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



Source: Phillip Securities (HK) Research

### Soar of 60% in Earnings of H1 2017

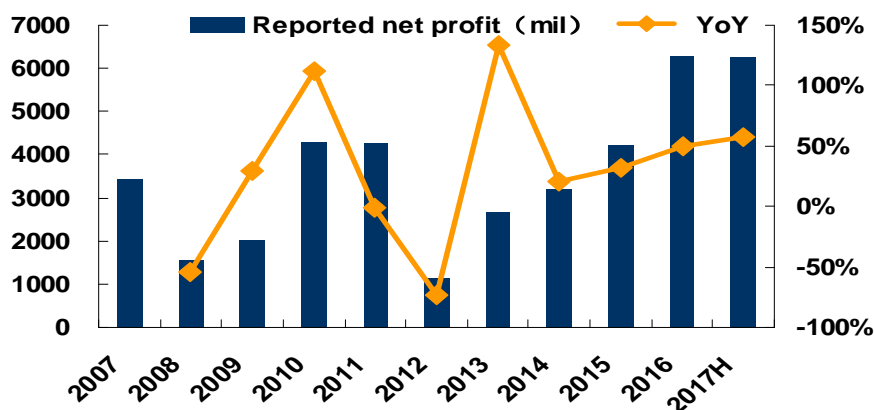
According to the report of H1 2017, GAC's general income in H1 was RMB34.765 billion, with a yoy increase of 62.2%; the net profit attributable to shareholders amounted to RMB6.27 billion, with a yoy increase of 57%; the EPS was RMB0.97, compared with RMB0.62 in the same period last year; the interim dividend payout was RMB0.10 per share, compared with RMB0.08 last year, with the dividend payout ratio decreasing 3 pts to 10%.

### KEY FINANCIALS

CNY mn	FY15	FY16	FY17E	FY18E
Net Sales	29,418	49,418	71,257	80,785
Net Profit	4,212	6,288	10,569	13,460
EPS, CNY	0.65	0.98	1.64	2.08
P/E, x	24.4	17.5	9.8	7.8
BVPS, CNY	6.01	6.81	8.27	10.29
P/BV, x	2.7	2.5	1.9	1.6
DPS (CNY)	0.20	0.31	0.50	0.65
Div. Yield (%)	1.3%	1.8%	3.1%	4.0%

Source: Company reports, Phillip Securities Est.

### GAC's net profit trend (RMB mil)



Source: Company, Phillip Securities Hong Kong Research

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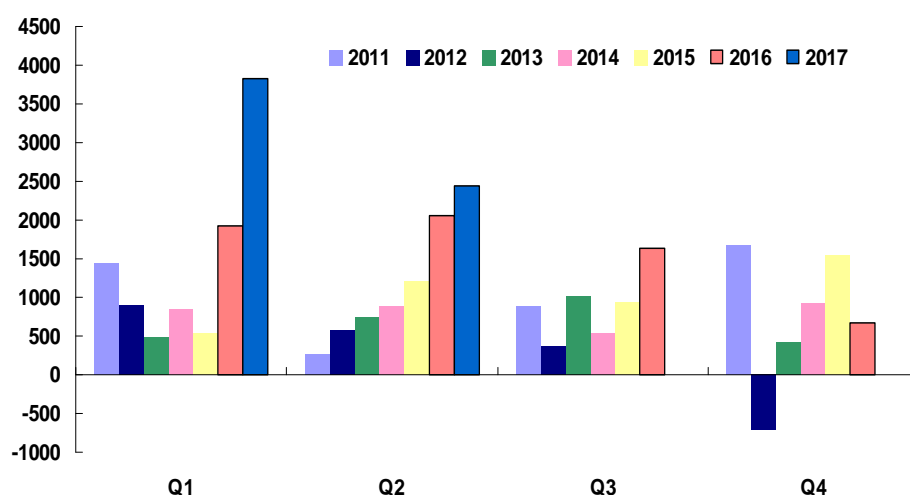
### Growth in Q2 Decreased

In accordance with the Generally Accepted Accounting Principles (GAAP) in China, the net profit in Q2 was RMB2.437 billion, up 18.5% yoy compared to a doubling of Q1, down 36% qoq compared with the net profit of RMB3.83 billion in Q1. Except for a high base, there are two main reasons:

1) In the second quarter, the growth of the domestic auto market slowed down. Under the pressure from price-off promotions of rivals, the Company actively took actions, enhancing advertising and promotions of its blockbuster brand Trumpchi and increasing promotion cost, recording the cost of sales of Q2 of RMB1.114billion, surging 39% yoy, up 24% qoq.

2) In the second quarter, the Company set aside RMB930 million for asset impairment on the basis of prudence, compared to only RMB230 million in the same period last year.

GAC's net profit by quarters (RMB mil)



Source: Company, Phillip Securities Hong Kong Research

### Independent & Joint Venture Continually Pushed Sales to Increase by 30% in H1

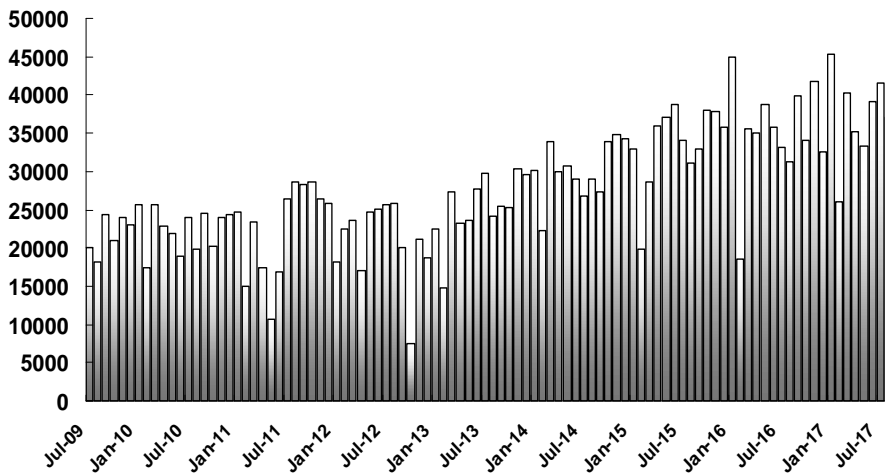
The Company sold 964,000 vehicles in H1, up 31.7% yoy. Among other things, the five major increment contributors were GAC's self-owned brand (+91586), GAC Honda (+47297), GAC Fiat (+47229), GAC Mitsubishi (+34969), GAC Toyota (+10704), by increment contribution, respectively, among which, GAC Mitsubishi rose by 182% yoy, GAC Fiat 77% yoy, GAC's self-developed brands 57% yoy, GAC Honda 17% yoy, and 5% yoy GAC Toyota.

GAC's self-owned brand sold 251,000 vehicles, up 57% yoy. Trumpchi achieved an excellent result, relying on the hot sales of GS4/GS8 in SUV market of the self-owned brand, with a monthly sales volume of GS4 of over 30,000 vehicles on average. In the joint venture brands, the sales of GAC Honda and GAC Toyota increased by 17.3% and 5.1% yoy, respectively; GAC Mitsubishi increased by 182% yoy, relying on the hot sales of Outlander; GAC Fiat increased by 77.21% yoy, with the new models Compass and Jeep Renegade contributing to the sales volume. In the second half, the new models of the Company include the small-sized SUVSG3, MPVGM8, and the mid-sized SUVGS7, continuing to expand the existing SUV layout. GAC Toyota will launch a new generation of Camry. Honda Advancier and Toyota Highlander are in short supply. We expect that under the protection of a variety of strong models, the Company's profitability still has a large upwards elastic space.

**Investment Thesis and Valuation**

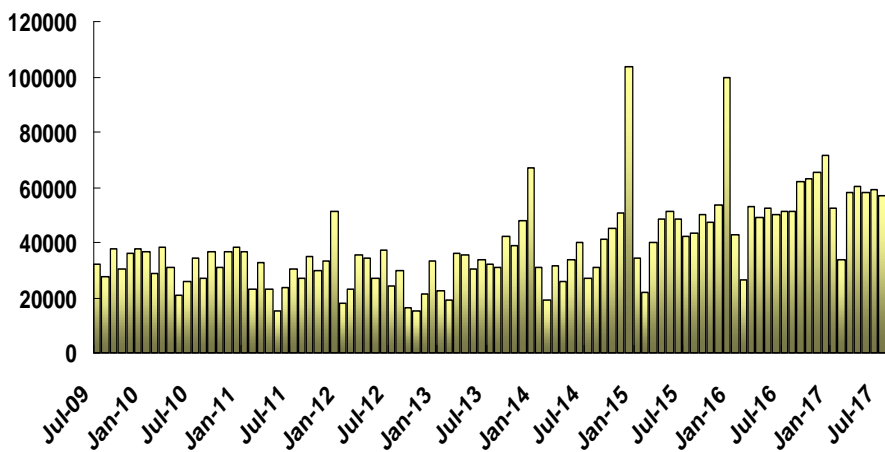
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**GAC Toyota monthly sales (units)**



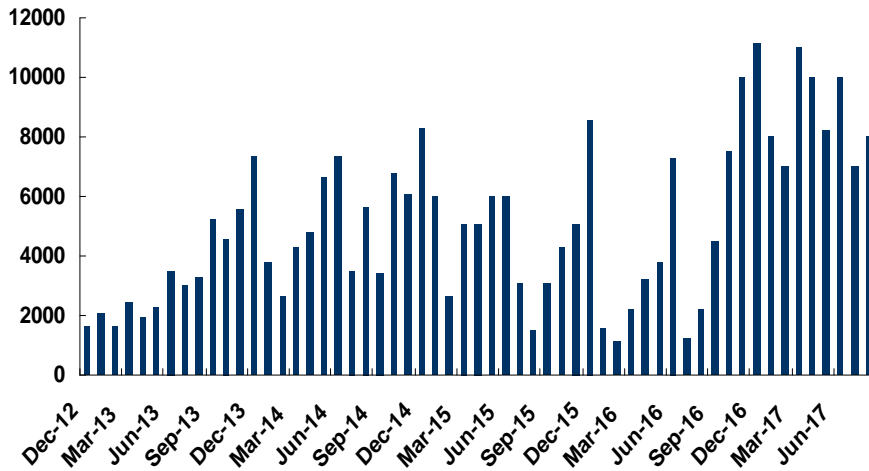
Source: Company, Phillip Securities Hong Kong Research

**GAC Honda monthly sales (units)**



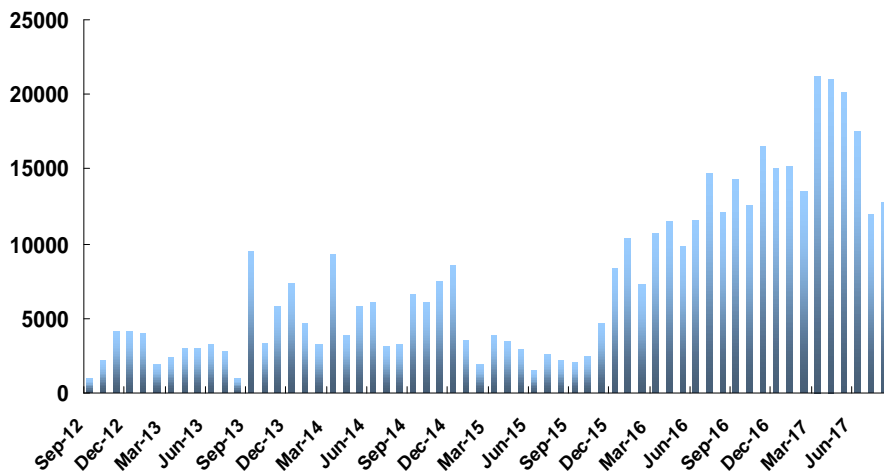
Source: Company, Phillip Securities Hong Kong Research

**GAC Mitsubishi monthly sales (units)**



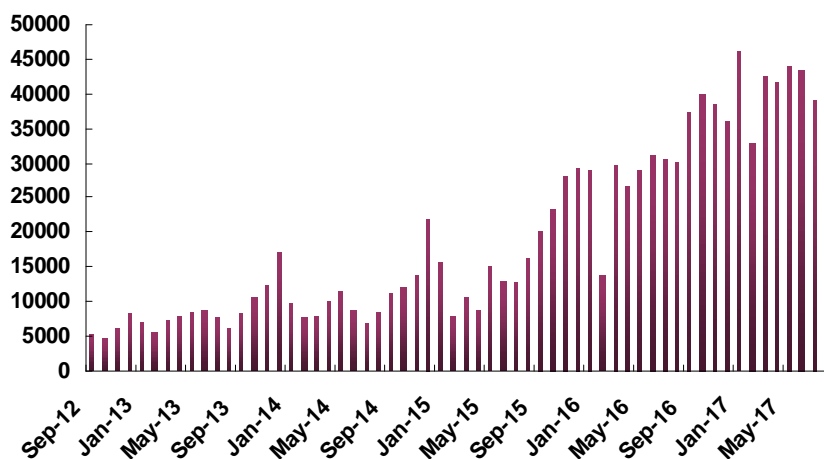
Source: Company, Phillip Securities Hong Kong Research

**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

## Peer Comparison

排名	代码	证券简称	总市值(亿元)	流通市值(亿元)	市盈率PE			市净率PB(MRQ)
					TTM	17E	18E	
3	2238.HK	广汽集团	1,777	422	--	10	8	2
港股(7)								
		中位值	1,199	368	--	10	8	2
1	0175.HK	吉利汽车	2,168	2,169	--	20	15	7
2	1211.HK	比亚迪股份	1,999	656	--	36	27	3
4	1114.HK	BRILLIANCE CHI	1,201	1,201	--	20	14	4
5	2333.HK	长城汽车	1,198	315	--	10	8	2
6	0489.HK	东风集团股份	913	303	--	6	5	1
7	1958.HK	北京汽车	574	159	--	8	6	1
8	1122.HK	庆铃汽车股份	65	32	--	--	--	1

Source: Wind, Phillip Securities Hong Kong Research

## Financials

FYE DEC	FY12	FY13	FY14	FY15	FY16	FY17F	FY18F
<b>Valuation Ratios</b>							
P/E (X), adj.	87.0	36.3	30.3	24.4	17.5	9.8	7.8
P/B (X)	3.2	2.9	2.7	2.7	2.5	1.9	1.6
Dividend payout Yield (%)	51.1%	38.8%	32.3%	30.6%	32.1%	31.1%	31.8%
Dividend Yield (%)	0.6%	1.1%	1.1%	1.3%	1.8%	3.1%	4.0%
<b>Per share data (RMB)</b>							
EPS, reported	0.18	0.41	0.49	0.65	0.98	1.64	2.08
EPS, adj.	0.18	0.41	0.49	0.65	0.97	1.61	2.05
DPS	0.09	0.16	0.16	0.20	0.31	0.50	0.65
BVPS	4.84	5.18	5.50	6.01	6.81	8.27	10.29
<b>Growth &amp; Margins (%)</b>							
<b>Growth</b>							
Revenue	18.0%	45.2%	18.9%	31.5%	68.0%	44.2%	13.4%
EBIT	-70.9%	134.6%	20.0%	39.8%	58.2%	63.8%	26.2%
Net Income, adj.	-73.5%	133.9%	20.1%	32.2%	49.3%	68.1%	27.3%
<b>Margins</b>							
Gross margin	5.3%	10.6%	11.4%	11.7%	15.1%	16.7%	17.0%
EBIT margin	9.2%	14.9%	15.0%	16.0%	15.0%	17.1%	19.0%
Net Profit Margin	8.7%	14.1%	14.2%	14.3%	12.7%	14.8%	16.7%
<b>Key Ratios</b>							
ROE (%)	3.8%	8.2%	9.3%	11.4%	15.2%	21.7%	22.4%
ROA (%)	2.4%	4.9%	5.3%	6.5%	8.4%	12.0%	13.1%

## Income Statement (RMB mn)

Revenue	12964	18824	22376	29418.2	49417.7	71257	80785
Gross profit	690	1994	2547	3444	7456	11886	13725
EBIT	1193	2798	3359	4696	7427	12167	15350
Profit before tax	1000	2629	3053	4386	7050	11781	14918
Tax	65	-101	-126	-400	-754	-1191	-1428
Profit for the period	1065	2529	2926	3986	6295	10590	13490
Minority interests	-69	-124	-259	-226.02	7.713	21	30
Total capital share	6435	6435	6435	6435	6439	6457	6467
<b>Net profit</b>	<b>1134</b>	<b>2653</b>	<b>3185</b>	<b>4212</b>	<b>6288</b>	<b>10569</b>	<b>13460</b>

Source: PSR

(Financial figures as at 21 September 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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