

Geely (175.HK)

Sales hitting a new high in October and strong product cycle will go on for two years

27 November 2017

Hong Kong | Automobile | Update Report

Investment Summary

- Sales in "Golden September" and "Silver October" Had Excellent Results, Hitting a New High in October.

- The SUV sales made up 54% of the total, among which BoYue sold over 30,000 units, leading to further optimization of the sales structure.

- The LYNK&CO order remains large, and its strong product cycle will go on for two years.

Investment Thesis

The platform technology of standardized and modularized production, the late-mover advantages from corporation with Volvo, and the company's strong cost control ability and gradually mature concept of car manufacturing have provided strong momentum towards its new round of development. The recent redemption of the notes lifts restrictions on the increase of the company's existing dividend payout ratio of 15%; the dividend rate is expected to substantially increase in the future.

We are optimistic about its steady growth in medium and long term sales. As for the valuation, considering the better sales momentum and higher dividend yield in the future, we lift target price to HK\$ 33 on our revised forecast EPS, equivalent to 26.4/19.4/14.2x estimated P/E ratio of 2017/2018/2019. (Closing price as at 23 Nov 2017)

Accumulate (Maintain)

CMP: HKD 28.35

(Closing price as at 23 Nov 2017)

TARGET: HKD 33.00 (+16%)

COMPANY DATA

O/S SHARES (MN) :	8968
MARKET CAP (HKD MN) :	254249
52 - WK HI/LO (HKD):	29.8/7.02

SHARE HOLDING PATTERN, %

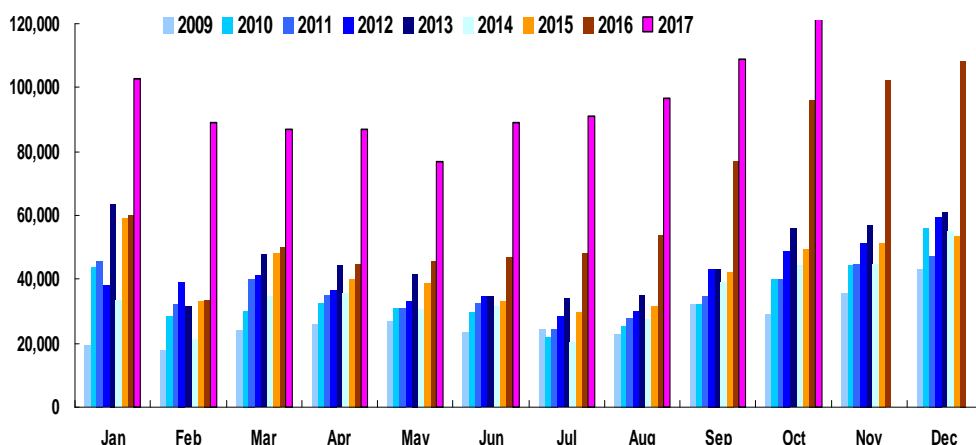
Proper Glory Holding Inc	29.68
Zhejiang Geely Automobile Company Ltd	8.82

PRICE VS. HSI



Source: Phillip Securities (HK) Research

Geely's monthly sales



Source: Company, Phillip Securities Hong Kong Research

KEY FINANCIALS

CNY mn	FY15	FY16	FY17E	FY18E
Net Sales	30,138	53,722	90,268	114,830
Net Profit	2,261	5,112	9,737	13,297
EPS, CNY	0.26	0.58	1.09	1.48
P/E, x	92.5	43.5	22.0	16.2
BVPS, CNY	2.22	2.77	3.70	4.94
P/BV, x	10.7	9.1	6.5	4.8
DPS (CNY)	0.03	0.11	0.40	0.55
Div. Yield (%)	0.1%	0.4%	1.7%	2.3%

Source: Company reports, Phillip Securities Est.

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Sales in "Golden September" and "Silver October" Had Excellent Results, Hitting a New High in October

The sales volume of Geely Auto reached 125,100 units in October 2017, representing a vast increase of 30% yoy. In the first ten months, Geely Auto's total sales volume reached 952,200 units, approximately up 72% yoy, already achieving 87% of its goal of annual sales volume. In view of this gratifying sales volume, we predict the annual sales volume will be much likely to exceed the set target of 1,100,000 units and even expect to achieve a higher result of 1,200,000 units, increasing over 50% yoy. It excels in the China's auto industry as the average growth rate in the sector slowed down to single digit.

The SUV sales made up 54% of the total, among which Bo Yue sold over 30,000 units, leading to further optimization of the sales structure

In terms of models, the sales of Geely's six main models stabilized at over 10,000 units per month. 27,033 units of the sedan model Imperial were sold, up 8% yoy and 14% mom; 13,513 units of the crossover Imperial GL were sold, up 90% yoy and 12% mom.

The sales volume of Bo Yue SUV, the most high-end model of SUV, broke through 30,000 units in October at its first try, up by 80% yoy and 15% mom to 30,318 units. It is a main supporting factor that plants in Baoji and other cities expanded and released capacity. Such a brilliant sales volume of a new model which was launched just one and a half years ago, fully demonstrated Geely's increasingly mature development in manufacturing concept, technology and marketing etc. And the sales volumes of other SUV models are as follows: Vision SUV 11,214 units, Imperial GS 16,063 units, and the small SUV X1 and X3, 3,061 units and 7,007 units, respectively. The proportion of SUV increased from 37% at the end of last year to 54%. The sales structure was further optimized, and therefore the gross margin was expected to reach a new high.

The LYNK&CO order remains large, and its strong product cycle will go on for two years

The first LYNK&CO 01 sedan with a 2.0T+6AT specification, a model of Geely's new brand LYNK, is able to be reserved now. The price range is between RMB170,000 and RMB240,000, and the exact price will be released on November 28. For now, the order of this new model is better than expectation. Another new model with a 1.5T specification will be launched in 2018 to further increase consumer size and capture more demands.

At the same time in Guangzhou International Automotive Exhibition, Geely has launched a brand-new model of Vision S1, a second crossover SUV whose positioning is a bit below Imperial GS. With the launch of Vision S1, Geely's product chain of SUV is further strengthened.

LYNK 01



Vision S1



Source: Phillip Securities Hong Kong Research

Looking into the future, in the support of the new technology platform iNTEC, the company will remain the same efforts to launch new cars in the next two to three years. Considerable new models will be unveiled in 2018/2019. Upgraded versions of the existing models will be launched successively. Besides, Geely Auto will launch 8 brand-new models in 2018, including LYNK&CO 02 and 03. And in 2019, the company will continue to launch no less than 5-6 brand-new models, enriching its product portfolio.

The platform technology of standardized and modularized production, the late-mover advantages from corporation with Volvo, and the company's strong cost control ability and gradually mature concept of car manufacturing have provided strong momentum towards its new round of development. The recent redemption of the notes lifts restrictions on the increase of the company's existing dividend payout ratio of 15%; the dividend rate is expected to substantially increase in the future.

Financials

FYE DEC	FY13	FY14	FY15	FY16	FY17F	FY18F	FY19F
Valuation Ratios							
P/E (X), adj.	70.2	137.6	92.5	43.5	22.0	16.2	11.9
P/B (X)	11.5	11.4	10.7	9.1	6.5	4.8	3.8
Dividend Yield (%)	0.2%	0.1%	0.1%	0.4%	1.7%	2.3%	3.2%
Dividend payout ratio (%)	13.9%	12.3%	12.5%	18.8%	37.0%	37.3%	37.6%
Per share data (RMB)							
EPS, (Basic)	0.317	0.163	0.257	0.580	1.088	1.483	2.028
EPS, (Diluted)	0.303	0.163	0.257	0.573	1.081	1.476	2.019
DPS	0.042	0.020	0.032	0.108	0.400	0.550	0.760
BV/PS	1.93	1.96	2.22	2.77	3.70	4.94	6.28
Growth & Margins (%)							
Growth							
Revenue	16.6%	-24.3%	38.6%	78.3%	68.0%	27.2%	26.6%
EBIT	22.8%	-41.2%	46.5%	116.4%	90.1%	40.0%	36.9%
Net Income, adj.	30.5%	-46.3%	58.0%	126.2%	90.5%	36.6%	36.8%
Margins							
Gross margin	20.1%	18.2%	18.2%	18.3%	19.5%	20.8%	22.1%
EBIT margin	11.6%	9.0%	9.6%	11.6%	13.1%	14.4%	15.6%
Net Profit Margin	9.3%	6.6%	7.5%	9.5%	10.8%	11.6%	12.5%
Key ratios (%)							
ROE	18.3%	8.5%	12.3%	23.3%	33.8%	34.4%	36.2%
ROA	7.9%	3.8%	5.3%	7.6%	12.7%	14.8%	17.4%
Income Statement (RMB mn)							
Revenue	28,708	21,738	30,138	53,722	90,268	114,830	145,395
Gross profit	5,766	3,963	5,471	9,842	17,620	23,885	32,147
EBIT	3,344	1,967	2,881	6,234	11,849	16,592	22,713
Profit before tax	3,304	1,943	2,875	6,204	11,824	16,578	22,703
Tax	(624)	(494)	(586)	(1,034)	(1,969)	(3,150)	(4,314)
Profit for the period	2,680	1,449	2,289	5,170	9,855	13,428	18,390
Minority interests	(17)	(19)	(28)	(58)	(118)	(132)	(202)
Total capital share	8,392	8,801	8,801	8820	8948	8968	8968
Net profit	2,663	1,431	2,261	5,112	9,737	13,297	18,187

Source: PSR

(Financial figures as at 23 November 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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