

GAC (2238.HK)

2017 Result in Line, Good Start in 2018M2

Hong Kong | Automobile | Update Report

13 March 2018

- Investment Summary

2017 Result Forecast in Line with Expectation

Sales increase by more than 20% throughout 2017

Ideal situation in the first two months in 2018

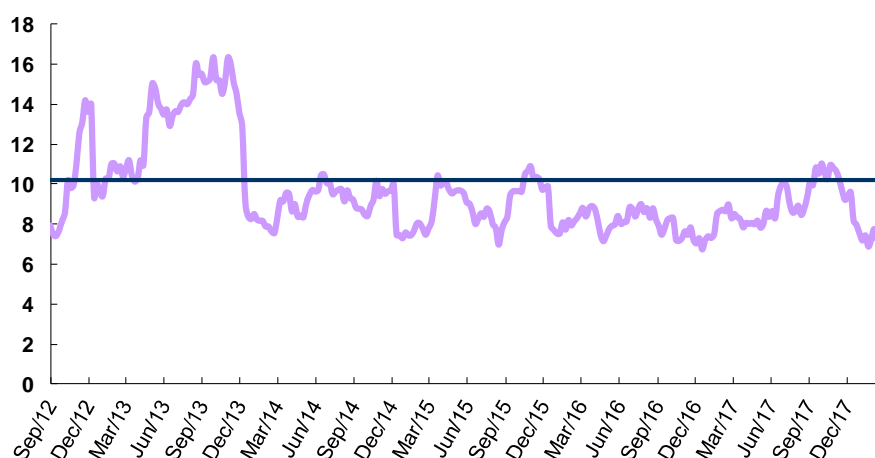
The sales target for 2018 will be met hopefully

The overweight of a major shareholder gives a positive signal

- Investment Thesis

2017 Result is in line with our expectation. With a good beginning and a brilliant new car plan in 2018, we believe that the excellent growth will last for GAC in this year, and so we reaffirm 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 9 March 2018)

GAC's Forward P/E trend



Source: Bloomberg, Phillip Securities Hong Kong Research

2017 Result Forecast in Line with Expectations

According to GAC's preliminary results, the net profit attributable to parent company in 2017 grew by 55% to 85% yoy to RMB9.74 billion - RMB11.63 billion with the median of RMB10.7 billion (+70%), close to the estimated RMB10.6 billion.

BUY (Maintain)

CMP: HKD 17.48

(Closing price as at 9 March 2018)

TARGET: HKD 24.65 (+41%)

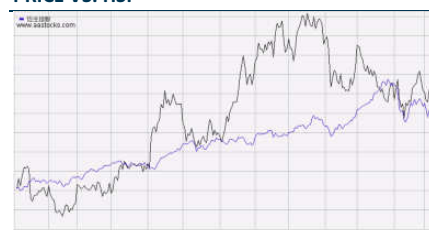
COMPANY DATA

O/S SHARES (MN) :	7294
MARKET CAP (HKD MN) :	38733
52 - WK HI/LO (HKD):	22.05 /11.46

SHARE HOLDING PATTERN, %

Guangzhou Automobile Industry Group Co., Ltd	60.63
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PRICE VS. HSI



Source: Phillip Securities (HK) Research

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	22.4	16.1	9.0	7.1
BVPS, CNY	6.01	6.81	8.27	10.29
P/BV, x	2.4	2.3	1.8	1.4
DPS (CNY)	0.20	0.31	0.50	0.65
Div. Yield (%)	1.4%	2.0%	3.4%	4.4%

Source: Company reports, Phillip Securities Est.

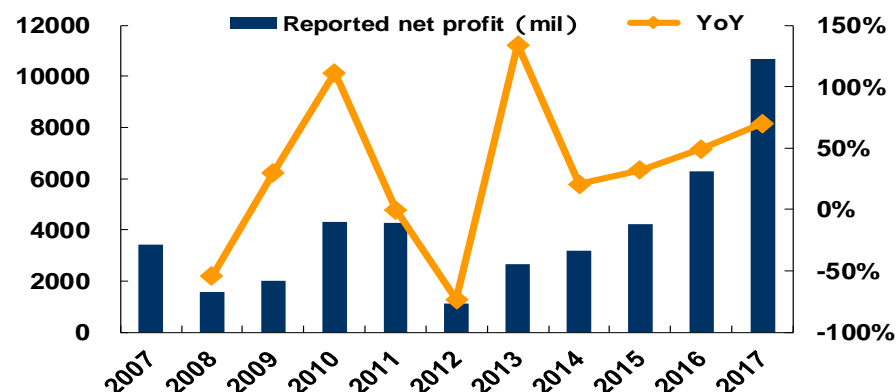
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GAC's net profit trend (RMB mil)

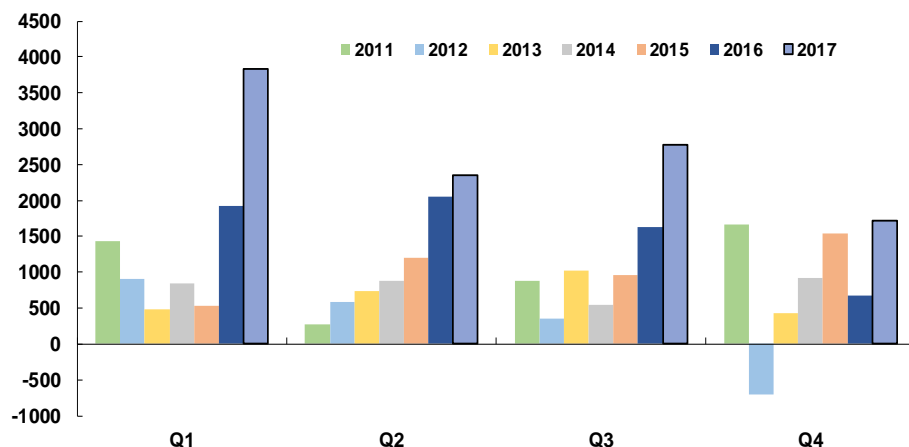


Source: Company, Phillip Securities Hong Kong Research

Sales increase by more than 20% throughout 2017

GAC sold approximately 2 million vehicles throughout 2017, an increase of 21.3 % yoy. Among other things, approximately 1,997,000 passenger vehicles were sold, an increase of 21% yoy, and 4,168 commercial vehicles were sold, an increase of 111% yoy. The production and sales announcement indicated that the sales volume of GAC Honda rose by 10.4% yoy to 705,000; that of GAC Toyota rose by 4.9% yoy to 442,000; that of the self-owned brand passenger vehicles of GAC rose by 36.7% yoy to 509,000; that of GAC Fiat Chrysler rose by 40% yoy to 205,000; that of GAC Mitsubishi rose by 110% yoy to 117,000. The five major increment contributors were GAC's self-owned brand (+137,078), GAC Honda (+66,231), GAC Mitsubishi (+61,440), GAC Fiat (+58,738) and GAC Toyota (+20,580).

GAC's net profit by quarters (RMB mil)



Source: Company, Phillip Securities Hong Kong Research

From the perspective of models, the sales volume of middle- to upper-class sedans decreased by 3% to 250,000, that of middle-class sedans increased by 5.8% to 360,000, that of economical sedans increased by 13% to 206,000, and that of MPV decreased by 20% to 38,000. Model SUV accounts for the largest proportion of the total sales volume. Its annual sales volume surged by 40.7% yoy to 1,135,000, accounting for 94% of the total annual sales volume of all passenger vehicles, up by 7.8ppts to 56.8% from 49% of the previous year. The sales volume of Trumpchi GS4, a self-owned brand, totaled up to 335,000, ranking the fourth among domestic SUVs; that of GS8 exceeded 100,000; those of Highlander of GAC Toyota and Avancier of GAC Honda, two high-end SUV models, were near to 100,000 and 90,000,

respectively; those of other fast-selling SUV models like Vezel, Cherokee, Compass, and Outlander turned out to be excellent by virtue of their unique power of product and marketing.

Ideal situation in the first two months in 2018

According to the Company's preliminary production and sales results, in the first two months of 2018, the sales volume of passenger vehicles rose by 15% yoy to approximately 320,000. From the perspective of classification of automobile companies, GAC Honda jumped by 30% yoy to 112,000; that of GAC Toyota slightly declined by 4.5% yoy to 680,000; that of the passenger vehicles of GAC surged by 20% yoy to 950,000; that of GAC Fiat Chrysler decreased by 25% yoy to 210,000; that of GAC Mitsubishi jumped by 71% yoy to 260,000. From the perspective of model characteristics, as a result of base number, model updating, etc., the growth of middle- to upper-end sedans rebound to 47%, that of SUVs declined to 12.5%, and those of high-end models were more remarkable. Sales of Accord, Avancier and Camry are quite remarkable and the demands for Trumpchi GS4 and GS8 have been partially diverted to new models GS3 and GS7, and there is room for improvement of the sales of GA4 and GA8.

The sales target for 2018 will be met hopefully

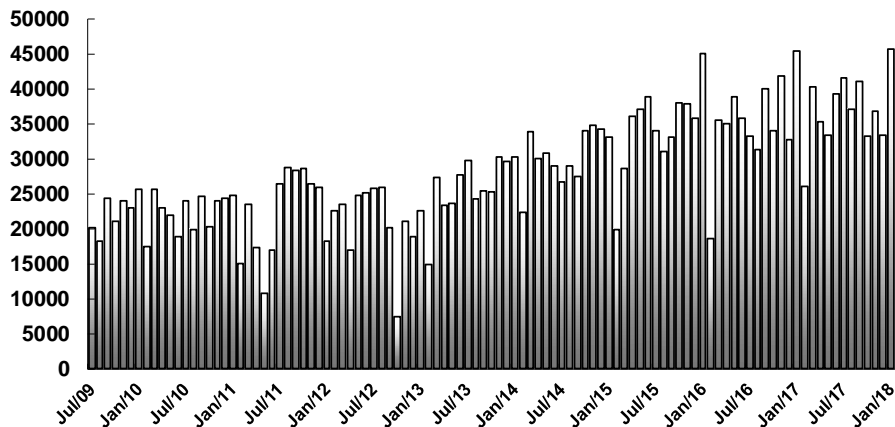
The basic and advanced sales targets determined by the Company for 2018 are an increase of 10% to 2.2 million and an increase of 15% to 2.3 million, respectively, including approximately 0.75 million of GAC Honda models, approximately 0.5 million of GAC Toyota models, approximately 0.63 to 0.7 million of passenger vehicles of GAC, approximately 0.23 million of GAC Fiat Chrysler and approximately 0.14 million of GAC Mitsubishi.

According to the new model plan, the Company's new products will mushroom in 2018: Trumpchi will have GM6, brand-new GS5, new GS4 and GA4 that was just launched in January; GAC Honda, the tenth generation of Accord and compact SUVCHR of GAC Toyota will be launched in April; Acura RDX will be put into production at the end of the year; with Eclipse Cross of Eclipse Cross, a 7-seat new model, Great Commander of GAC Fiat Chrysler as well as Acura TLX and the brand-new generation of Camry launched at the end of 2017, the Company will more comprehensively cover the model market in 2018. In 2018, 100,000 to 200,000 new productivity of Hangzhou Trumpchi Factory will be invested in succession, and the productivity bottleneck of GAC Honda will possibly be broken through (100,000 vehicles increased). We think that driven by new models and newly increased productivity, GAC will achieve the annual sales target.

The overweight of a major shareholder gives a positive signal

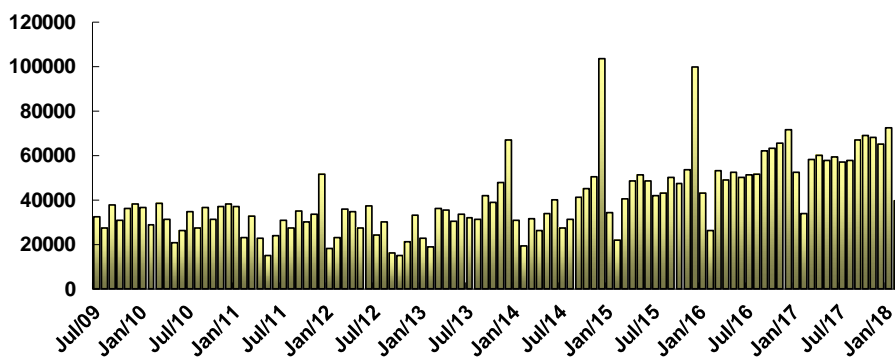
Guangzhou Automobile Industry Group, the Company's controlling shareholder, recently announced that it planned to increase its holding of shares of the Company from February 9 to December 31, 2018 and the increased amount will be no less than RMB30 million or more than RMB0.3 billion and promised that it will not decrease its holding during the period. Originally, Guangzhou Automobile Industry Group held 53.74% of the total shares of the Company. We hold that the increased holding by the major shareholder in this period indicated that it is confident about the Company's future development, and the Company's share price will possibly rise accordingly.

GAC Toyota monthly sales (units)



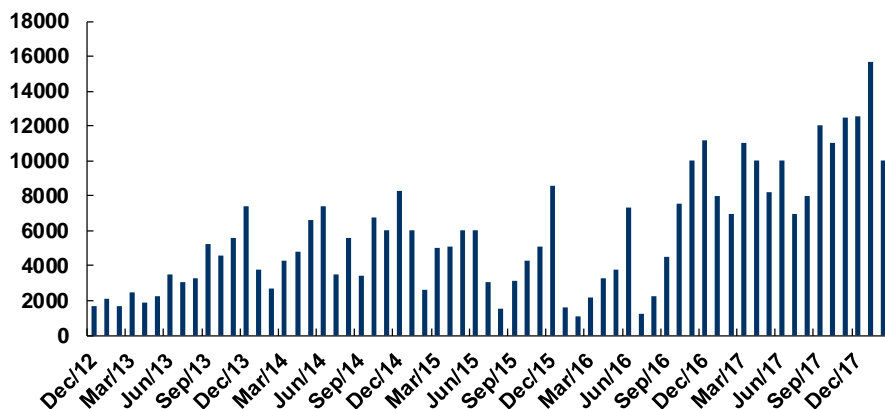
Source: Company, Phillip Securities Hong Kong Research

GAC Honda monthly sales (units)



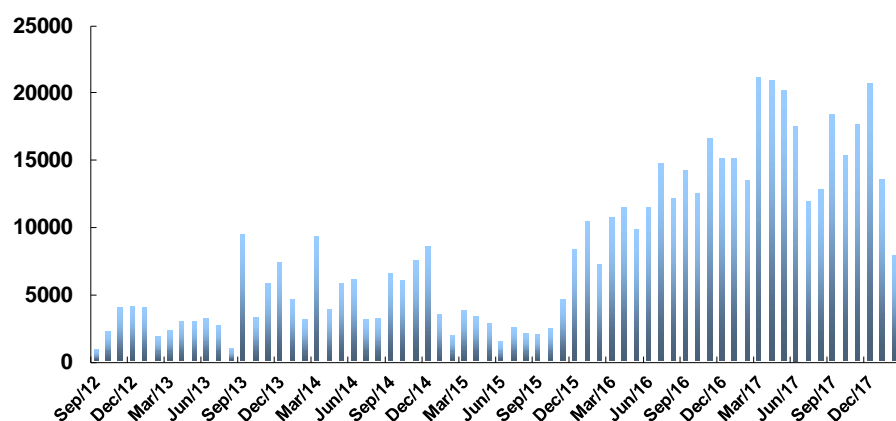
Source: Company, Phillip Securities Hong Kong Research

GAC Mitsubishi monthly sales (units)



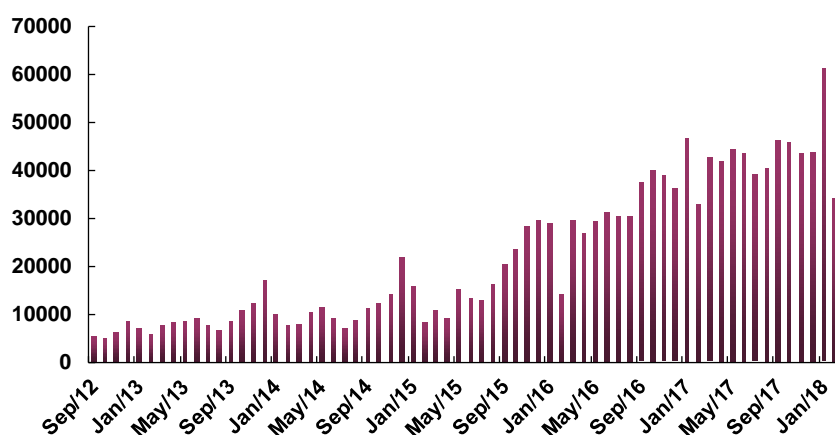
Source: Company, Phillip Securities Hong Kong Research

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

Ticker	Name	P/E – 2017E	P/B	ROE
600104 CH	SAIC	11.9	1.9	17.4%
000625 SZ	Changan	7.0	1.25	19.9%
489 HK	Dongfeng	5.1	0.7	14.2%
2238 HK	GAC	9.01	1.85	21.1%

Source: Bloomberg, Phillip Securities Hong Kong Research

Financials

FYE DEC	FY12	FY13	FY14	FY15	FY16	FY17F	FY18F
Valuation Ratios							
P/E (X), adj.	79.8	33.4	27.8	22.4	16.1	9.0	7.1
P/B (X)	2.9	2.7	2.5	2.4	2.3	1.8	1.4
Dividend payout Yield (%)	51.1%	38.8%	32.3%	30.6%	32.1%	31.1%	31.8%
Dividend Yield (%)	0.6%	1.2%	1.2%	1.4%	2.0%	3.4%	4.4%
Per share data (RMB)							
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
Growth & Margins (%)							
Growth							
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%
Margins							
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%
Key Ratios							
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	-226.024	7.713	21	30
Total capital share	6435	6435	6435	6435	6439	6457	6467
Net profit	1134	2653	3185	4212	6288	10569	13460

Source: PSR

(Financial figures as at 9 March 2018)

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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