

# GAC (2238.HK)

## Japanese brands maintain growth momentum

Hong Kong | Automobile | Update Report

21 December 2018

### Investment Summary

GAC Group's 2018 Q3 results grew slightly. Strong sales momentum of Japanese brand continues and self-brand start to recover in 2018Q4. It is expected that the Company will maintain steady growth in the future under the strong product cycle of the Japanese-brand JV. We revised the Company's 2018/2019 earnings forecast. We reaffirm the "Buy" rating with the target price to HKD 9.5. (Closing price as at 19 December 2018)

### BUY (Maintain)

CMP HKD 7.56  
(Closing price as at 19 December 2018)  
TARGET HKD 9.5 (+26%)

### Net profit slightly increases by 6% in Q3

The Q3 revenue of GAC was down about 3.3% Y-o-Y to RMB16.31 billion, net profit attributable to the parent company up by 6% Y-o-Y to RMB2.95 billion, equivalent to an EPS of RMB0.29. Result slightly fell short of our expectations. In the first three quarters, the Company reported a revenue of RMB53.5 billion, up 3.64% Y-o-Y; net profit attributable to parent company stood at RMB9.86 billion, up 10.02% Y-o-Y, equivalent to an EPS of RMB0.97.

#### COMPANY DATA

O/S SHARES (MN):	10231
MARKET CAP (HKD MN):	23395
52 - WK HI/LO (HKD):	13.821 / 6.75

#### SHARE HOLDING PATTERN, %

Guangzhou Automobile Industry Group Co., Ltd	60.63
--	-------

### The promotion of self-owned brands expanded, leading to a significant decline in the GPM

In the Q3, the overall domestic auto market continued to be under pressure, and the pressure on price for self-owned brand's SUV models was in particular heavy. Against the backdrop of the slowdown in the growth of self-owned brand sales, the Company increased its discount promotion efforts, including a discount of RMB10,000 to its Trumpchi GS4 model. Additionally, the large R&D investment of a number of new businesses (new energy vehicles and next-generation auto models) also dragged down the overall gross margin, which was down 6.3 percentage points Y-o-Y and 1.9 percentage points M-o-M to the level of 18.0%.

#### PRICE VS. HSI



Source: Phillip Securities (HK) Research

With regards to expenses, the sales expense ratio increased by 1.2 percentage points. This was mainly due to the combination of increasing advertising and marketing expenses and logistics and storage expenses. The management (including R&D) expense ratio decreased by 0.4 percentage point Y-o-Y, and the financial expense ratio decreased by 1.1 percentage points Y-o-Y, mainly as a result of a Y-o-Y decrease in borrowings and a decline in average borrowing cost.

#### KEY FINANCIALS

CNY mn	FY15	FY16	FY17E	FY18E
Net Sales	49,418	71,575	75,985	84,010
Net Profit	6,288	11,005	12,361	13,833
EPS, CNY	0.98	1.68	1.21	1.35
P/E, x	6.9	3.8	5.5	4.9
BVPS, CNY	6.81	10.60	7.67	8.65
P/BV, x	1.0	0.6	0.9	0.8
DPS (CNY)	0.31	0.53	0.38	0.42
Div. Yield (%)	4.6%	8.3%	5.6%	6.3%

Source: Company reports, Phillip Securities Est.

### Japanese brands maintained strong, driving investment income to grow rapidly

The Q3 total sales volume of GAC reached 541,000 units, up 7.6% Y-o-Y, and remained stable. Specifically, the Y-o-Y growth rates of GAC Honda/GAC Toyota/independent brands/GAC FCA/GAC Mitsubishi Motors were: 0.01%/39.2%/0.8%/-37.6%/19%, and the sales volume increments were 24/46,908/1,066/-16,247/5,389 vehicles, respectively. GAC Toyota's heavyweight models Camry, Levin and Highlander maintained good prospects of performance, with their sales growth rates reached 130%, 12% and 22.3%, respectively. Outlander of GAC Mitsubishi Motors and Accord of GAC Honda both recorded good performances, making up for the decline of GAC FCA. Japanese cars maintain growth momentum, driving the investment income of GAC's joint ventures to increase Y-o-Y by 29.1%, equivalent to RMB575 million, which represented a new high after the listing of GAC and accounted for more than 80% of pre-tax profits. During the reporting period, GAC's net profit margin increased by 1.7 percentage points Y-o-Y to 18.3%.

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

**The pace of sales is getting better, ensuring a future of stable growth**

From the sales volumes of the first two months (October/November) in the Q4, sales volume of GAC Toyota improved, that of GAC Honda regained its momentum, that of GAC's independent brands continued to recover slightly, that of GAC FCA remained weak, and the sales growth of GAC Mitsubishi Motors slowed down, with their growth rates of 10.74%/65.8%/1.8%/-45.9%/-2%, respectively, sales volume increments of 14,723/46,074/1,558/-15,128/-462 vehicles, respectively. The overall sales volume of the Group maintained a double-digit growth rate.

In terms of new cars, GAC Mitsubishi Motors will have its new model Eclipse Cross come out at the end of the year. In 2019, GAC Honda will put on the market Acura RDX, the new model of Vezele. GAC Toyota will have Levin PHEV, the new-generation RAV4. The Group's independent brand Trumpchi has new GS5, new GA6 and MPV GM6, as well as two 100% electric models based on an exclusive platform. Overall, GAC's subsequent growth momentum is strong.

**Investment Thesis**

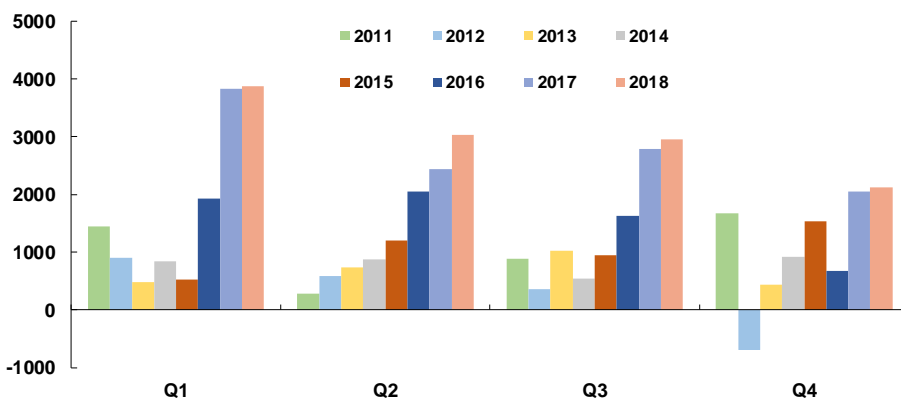
GAC Group's 2018 Q3 results grew slightly. Strong sales momentum of Japanese brand continues and self-brand start to recover in 2018Q4. It is expected that the Company will maintain steady growth in the future under the strong product cycle of the Japanese-brand JV. We revised the Company's 2018/2019 earnings forecast. We reaffirm the "Buy" rating with the target price to HKD 9.5, equivalent to 6.9/6.2x P/E ratio in 2018/2019.

**GAC's Forward P/E&P/B trend**



Source: Bloomberg, Phillip Securities Hong Kong Research

**GAC's net profit by quarters (RMB mil)**



Source: Company, Phillip Securities Hong Kong Research

### Peer Comparison

Ticker	Name	P/E - 2018E	P/B	ROE
600104.SH	上汽集团 SAIC	7.8	1.3	8.6
0489.HK	东风集团 Dongfeng	3.5	0.5	7.1
2238.HK	广汽集团 GAC	5.4	0.9	9.4
000625.SZ	长安汽车 Changan	14.3	0.7	3.4
1958.HK	北京汽车 BAIC	5.3	0.7	6.0
2333.HK	长城汽车 GWM	6.1	0.7	7.2
1211.HK	比亚迪股份 BYD	37.8	2.3	0.9
0175.HK	吉利汽车 Geely	7.9	3.0	17.1

Source: Wind, Phillip Securities Hong Kong Research

## Financials

FYE DEC	FY14	FY15	FY16	FY17	FY18F	FY19F
<b>Valuation Ratios</b>						
P/E (X), adj.	12.0	9.7	6.9	3.8	5.5	4.9
P/B (X)	1.1	1.1	1.0	0.6	0.9	0.8
Dividend payout Yield (%)	32.3%	30.6%	32.1%	32.2%	31.2%	31.3%
Dividend Yield (%)	2.7%	3.2%	4.6%	8.3%	5.6%	6.3%
<b>Per share data (RMB)</b>						
EPS, reported	0.49	0.65	0.98	1.68	1.21	1.35
EPS, adj.	0.49	0.65	0.97	1.65	1.20	1.34
DPS	0.16	0.20	0.31	0.53	0.38	0.42
BVPS	5.50	6.01	6.81	10.60	7.67	8.65
<b>Growth &amp; Margins (%)</b>						
<b>Growth</b>						
Revenue	18.9%	31.5%	68.0%	44.8%	6.2%	10.6%
EBIT	20.0%	39.8%	58.2%	67.6%	7.6%	13.7%
Net Income, adj.	20.1%	32.2%	49.3%	75.0%	12.3%	11.9%
<b>Margins</b>						
Gross margin	11.4%	11.7%	15.1%	18.0%	17.0%	17.3%
EBIT margin	15.0%	16.0%	15.0%	17.4%	17.6%	18.1%
Net Profit Margin	14.2%	14.3%	12.7%	15.4%	16.3%	16.5%
<b>Key Ratios</b>						
ROE (%)	9.3%	11.4%	15.2%	19.4%	16.7%	16.6%
ROA (%)	5.3%	6.5%	8.4%	10.9%	10.1%	10.4%

### Income Statement (RMB mn)

<b>Revenue</b>	<b>22376</b>	<b>29418</b>	<b>49418</b>	<b>71575</b>	<b>75985</b>	<b>84010</b>
<b>Gross profit</b>	2547	3444	7456	12858	12940	14542
EBIT	3359	4696	7427	12445	13392	15232
Profit before tax	3053	4386	7050	12194	13422	15204
<b>Tax</b>	-126	-400	-754	-1154	-985	-1277
Profit for the period	2926	3986	6295	11040	12437	13927
Minority interests	-259	-226	8	35	76	94
Total capital share	6435	6435	6439	6551	10231	10231
<b>Net profit</b>	<b>3185</b>	<b>4212</b>	<b>6288</b>	<b>11005</b>	<b>12361</b>	<b>13833</b>

Source: PSR

(Financial figures as at 19 December 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

#### GENERAL DISCLAIMER

This publication is prepared by Phillip Securities (Hong Kong) Ltd ("Phillip Securities"). By receiving or reading this publication, you agree to be bound by the terms and limitations set out below.

This publication shall not be reproduced in whole or in part, distributed or published by you for any purpose. Phillip Securities shall not be liable for any direct or consequential loss arising from any use of material contained in this publication.

The information contained in this publication has been obtained from public sources which Phillip Securities has no reason to believe are unreliable and any analysis, forecasts, projections, expectations and opinions (collectively the "Research") contained in this publication are based on such information and are expressions of belief only. Phillip Securities has not verified this information and no representation or warranty, express or implied, is made that such information or Research is accurate, complete or verified or should be relied upon as such. Any such information or Research contained in this publication is subject to change, and Phillip Securities shall not have any responsibility to maintain the information or Research made available or to supply any corrections, updates or releases in connection therewith. In no event will Phillip Securities be liable for any special, indirect, incidental or consequential damages which may be incurred from the use of the information or Research made available, even if it has been advised of the possibility of such damages.

Any opinions, forecasts, assumptions, estimates, valuations and prices contained in this material are as of the date indicated and are subject to change at any time without prior notice.

This material is intended for general circulation only and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. The products mentioned in this material may not be suitable for all investors and a person receiving or reading this material should seek advice from a financial adviser regarding the suitability of such products, taking into account the specific investment objectives, financial situation or particular needs of that person, before making a commitment to invest in any of such products.

This publication should not be relied upon as authoritative without further being subject to the recipient's own independent verification and exercise of judgment. The fact that this publication has been made available constitutes neither a recommendation to enter into a particular transaction nor a representation that any product described in this material is suitable or appropriate for the recipient. Recipients should be aware that many of the products which may be described in this publication involve significant risks and may not be suitable for all investors, and that any decision to enter into transactions involving such products should not be made unless all such risks are understood and an independent determination has been made that such transactions would be appropriate. Any discussion of the risks contained herein with respect to any product should not be considered to be a disclosure of all risks or a complete discussion of such risks.

Nothing in this report shall be construed to be an offer or solicitation for the purchase or sale of a security. Any decision to purchase securities mentioned in this research should take into account existing public information, including any registered prospectus in respect of such security.

#### Disclosure of Interest

Analyst Disclosure: Neither the analyst(s) preparing this report nor his associate has any financial interest in or serves as an officer of the listed corporation covered in this report.

Firm's Disclosure: Phillip Securities does not have any investment banking relationship with the listed corporation covered in this report nor any financial interest of 1% or more of the market capitalization in the listed corporation. In addition, no executive staff of Phillip Securities serves as an officer of the listed corporation.

#### Availability

The information, tools and material presented herein are not directed, intended for distribution to or use by, any person or entity in any jurisdiction or country where such distribution, publication, availability or use would be contrary to the applicable law or regulation or which would subject Phillip Securities to any registration or licensing or other requirement, or penalty for contravention of such requirements within such jurisdiction.

Information contained herein is based on sources that Phillip Securities (Hong Kong) Limited ("PSHK") believed to be accurate. PSHK does not bear responsibility for any loss occasioned by reliance placed upon the contents hereof. PSHK (or its affiliates or employees) may have positions in relevant investment products. For details of different product's risks, please visit the Risk Disclosures Statement on <http://www.phillip.com.hk>.

© 2018 Phillip Securities (Hong Kong) Limited

**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](http://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](http://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](http://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](http://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](http://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](http://www.kingandshaxson.com)

**AUSTRALIA**
**PhillipCapital Australia**

Level 10, 330 Collins Street  
Melbourne, Victoria 3000, Australia  
Tel: (61) 3 8633 9803 Fax: (61) 3 8633 9899  
[www.phillipcapital.com.au](http://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](http://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](http://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](http://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](http://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  
[www.ashaphillip.net/home.htm](http://www.ashaphillip.net/home.htm)