

Geely (175.HK)

Short-term slowdown and long-term growth potential

Hong Kong | Automobile | Update Report

1 February 2019

Investment Summary

We expect that in 2019, although the growth rate of car sales of the company is unlikely to repeat the high growth rate of 40-50% in previous years, it is promising that the company enters a new stage of development in terms of model structure, selling price of single vehicles and gross profit growth of single vehicles after this adjustment. As the new products and capacity release progress steadily and the company's medium- and long-term growth is promising. So, we maintain the rating of Buy.

Voluntary de-inventory at the end of the year, and Dec sales fell by 40%.

Because of the higher base in the same period of last year, the economic sentiment index chilled the car market. Besides the fact that the company's new main car models have not yet developed and the old models are challenged by the sinking price caused by the competition among the joint venture brands. Although Geely's month-on-month sales have remained basically stable, year-on-year growth ratio has narrowed monthly from the third quarter, and the fourth quarter even fell to single-digit. Geely's inventory index of its brand dealers has exceeded 2.0 in July/October/November, reaching 2.4/2.8/2.3. In December, in order to reduce the inventory pressure of dealers, the company took the initiative to reduce wholesale sales volume to 93,000 vehicles, down sharply 39% on a month-on-month basis, reaching new lows in 16 months and reflected the company's firm intention to take the initiative to de-inventory.

Sales increased by 20% in 2018, and the sales structure moved up

In 2018, the company sold 1,500,838 vehicles, a year-on-year increase of 20% or 253,722 units. Although it did not reach the target of 1.58 million vehicles at the beginning of the year, the growth rate was still noticeable in the industry. On a closer look of vehicle models, the main contribution of sales increment came from the new type Vision X3 (+85,711 units)/S1 (+57,243 units), LYNK&CO 01 (+83,393 units), and the newly launched Borui GE (+24,803 units), LYNK&CO 02 (+21,751 units), Binrui (+33,084 units), Binyue SUV (+23,361 units), and the older model Emgrand GL (+24,419 units). Sales decrement mainly came from older Bo Yue SUV (-31,190 units), low-end model Emgrand (-17,499 units), Vision SUV and KingKong. The succession of the new to the old in vehicle sales was still evident, and the structure of the car models moved up.

MGMT holds a conservative 2019 sales target, to slow down the pace for a long-term development

The sales target for 2019 set by the management of Geely is 1.51 million vehicles, remaining unchanged compared with that of 2018. In 2019, the company's efforts to promote new models remain unchanged. In addition to the upgraded versions of existing models such as new Bo Yue/Emgrand and PHEV versions of existing models, Geely will launch 5-6 types of brand-new models, including two MPV models Jia Ji and VF12, coupe FY11, EV GE11, a brand-new medium SUV "SX12" from BMA platform, and a new model of LYNK&CO.

Buy (Maintain)

CMP HKD 12.66

(Closing price as at 30 Jan 2019)

TARGET HKD 17.60 (+39%)

COMPANY DATA

O/S SHARES (MN) :	8975
MARKET CAP (HKD MN) :	113738
52 - WK HI/LO (HKD):	27.95/10.08

SHARE HOLDING PATTERN, %

Mr. Li Shufu	46.39
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PRICE VS. HSI



Source: Phillip Securities (HK) Research

KEY FINANCIALS

CNY bn	FY16	FY17	FY18E	FY19E
Net Sales	537	928	1150	1222
Net Profit	51	106	128	133
EPS, CNY	0.58	1.19	1.42	1.45
P/E, x	19.4	8.9	7.8	7.5
BVPS, CNY	2.77	3.86	5.03	6.19
P/BV, x	4.1	2.7	2.2	1.8
DPS (CNY)	0.11	0.24	0.32	0.33
Div. Yield (%)	1.0%	2.3%	2.9%	3.0%

Source: Company reports, Phillip Securities Est.

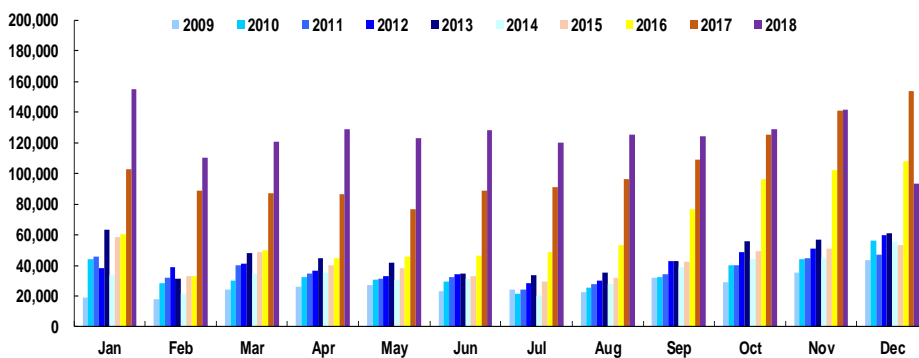
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It is worth mentioning that 2019 will be the year when Geely's new energy strategy is fully launched. New energy and electrified versions of various models will be launched one after another, including LYNK&CO 02/03 PHEV, Binyue PHEV, Jia Ji PHEV, and FY11PHEV. New energy and electrified vehicles accounted for 67,919 of the total sales in 2018, up 173% Y-o-Y, accounting for 4.5% of the total sales. With the accelerated introduction of PMA platform vehicles, the proportion of new energy vehicles will gradually increase in the future.

Investment Thesis

We expect that in 2019, although the growth rate of car sales of the company is unlikely to repeat the high growth rate of 40-50% in previous years, it is promising that the company enters a new stage of development in terms of model structure, selling price of single vehicles and gross profit growth of single vehicles after this adjustment. To reflect the lasted forecast and valuation, we revised our target price to HK\$17.6, equivalent to 10.9/10.5 P/E ratio in 2018/2019, and we maintain the rating of Buy. (Closing price as at 30 Jan 2019)

Geely's monthly sales



Source: Wind, Company, Phillip Securities Hong Kong Research

MPV Jiali



FY11



Concept Icon



GE11



Source: Phillip Securities Hong Kong Research

Financials

FYE DEC	FY14	FY15	FY16	FY17	FY18F	FY19F
Valuation Ratios						
P/E (X), adj.	61.5	41.3	19.4	8.9	7.8	7.5
P/B (X)	5.1	4.8	4.1	2.7	2.2	1.8
Dividend Yield (%)	0.2%	0.3%	1.0%	2.3%	2.9%	3.0%
Dividend payout ratio (%)	12.3%	12.5%	18.8%	20.8%	23.0%	23.2%
Per share data (RMB)						
EPS, (Basic)	0.163	0.257	0.580	1.191	1.421	1.447
EPS, (Diluted)	0.163	0.257	0.573	1.161	1.391	1.425
DPS	0.020	0.032	0.108	0.241	0.320	0.330
BVPS	1.96	2.22	2.77	3.86	5.03	6.19
Growth & Margins (%)						
Growth						
Revenue	-24.3%	38.6%	78.3%	72.7%	24.0%	6.2%
EBIT	-41.2%	46.5%	116.4%	105.5%	21.1%	4.1%
Net Income, adj.	-46.3%	58.0%	126.2%	108.0%	20.5%	3.5%
Margins						
Gross margin	18.2%	18.2%	18.3%	19.4%	20.1%	20.3%
EBIT margin	9.0%	9.6%	11.6%	13.8%	13.5%	13.2%
Net Profit Margin	6.6%	7.5%	9.5%	11.5%	11.1%	10.9%
Key ratios (%)						
ROE	8.5%	12.3%	23.3%	36.1%	32.1%	26.0%
ROA	3.8%	5.3%	7.6%	12.5%	13.0%	10.8%
Income Statement (RMB mn)						
Revenue	21,738	30,138	53,722	92,761	115,032	122,167
Gross profit	3,963	5,471	9,842	17,981	23,121	24,824
EBIT	1,967	2,881	6,234	12,809	15,512	16,154
Profit before tax	1,943	2,875	6,204	12,774	15,473	16,104
Tax	(494)	(586)	(1,034)	(2,039)	(2,476)	(2,657)
Profit for the period	1,449	2,289	5,170	10,735	12,997	13,447
Minority interests	(19)	(28)	(58)	(102)	(182)	(188)
Total capital share	8,801	8,801	8,820	8,932	9,021	9,165
Net profit	1,431	2,261	5,112	10,634	12,815	13,259

Source: PSR

(Financial figures as at 30 January 2019)

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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