

GAC (2238.HK)

Half year sales review

Hong Kong | Automobile | Update Report

GAC Toyota and GAC Honda Remained Strong, with Sales Increasing by 22% and 16%, respectively, against the Trend

According to the sales data released, in 2019 H1, the total sales of GAC recorded 999,600 thousand vehicles, a slight decrease of 1.7% yoy.

Among them, GAC Toyota sold 311,200 vehicles, an increase of 21.68% yoy, with Highlander, Camry and Levin enjoying a well selling; and GAC Honda sold 394,500 vehicles, an increase of 16.41% yoy, with Accord, Fit and Crider enjoying a growth against the trend and Avancier, Odyssey and Vezel enjoying a stable performance. GAC Toyota and GAC Honda grew against the trend of weak domestic demand, revealing a strong products competitiveness and good command of the market.

GAC Honda has launched Odyssey Sport Hybrid, new Vezel and other new models in late April and mid-June, and GAC Toyota has launched officially the upgrading generation Levin in June, and will launch an EV model in 2019 H2 and withdraw CHR EV in 2020. As driven by new models, the growth is expected to remain strong in H2.

Currently, the total production capacity of GAC Toyota is 480,000 vehicles, approx., and the rate of capacity utilization in 2018 has exceeded 125%. When the roll-out production line of its third new factory reaches the design capacity, its maximum capacity will increase by 220,000 vehicles, an increase of 50%, nearly. Meanwhile, to respond to the trend of new energy vehicles, GAC Toyota plans to invest RMB11.3 billion to expand its new energy vehicle project to reach an expected capacity increase of 400,000 vehicles, which will be up and running in 2022; and to invest RMB3.7 billion to increase the production capacity of TNGA engines by 432,000 units, which will be put into operation in 2021, when the modular production efficiency of the new TNGA platform will be greatly improved.

Currently, the total production capacity of GAC Honda is 600,000 vehicles, and the rate of capacity utilization in 2018 has exceeded 125% also. When the capacity expansion project in Zengcheng is put into production, the production capacity will increase by 120,000 to 240,000 vehicles, and the total production capacity will reach 720,000 to 840,000 vehicles.

Self-brands were under great pressure but with eased decline, and its NEV segment did all they can to catch up

In H1, Trumpchi, the self- brand of GAC, sold 187,000 vehicles, approx., a decrease of 30% yoy. Since the beginning of this year, to respond to the cooling auto market and ease the inventory pressure of dealers, the Company took the initiative to reduce the wholesale sales volume, with an average monthly decline of over 25%. But with the lowering base, the yoy decline was eased month by month. In June, the monthly sales growth of Trumpchi turned from negative to positive. In 2019, Trumpchi will usher in a year of upgrading. The new generation models with upgraded appearance, interior decoration and power include 2019 facelift GA4, GS3, GS4, GS5, GS7 and GM8, mid-life facelift GS8 and GA8, new-generation GA6 and new GM6.

9 August 2019

Buy (Upgrade)

CMP HKD 7.21

(Closing price as at 7 Aug 2019)

TARGET HKD 9.00 (+24.8%)

COMPANY DATA

O/S SHARES (MN):	10231
MARKET CAP (HKD MN):	22341
52 - WK HI/LO (HKD):	10.6 / 6.75

SHARE HOLDING PATTERN, %

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

PRICE VS. HSI



Source: Phillip Securities (HK) Research

KEY FINANCIALS

CNY mn	FY17	FY18	FY19E	FY20E
Net Sales	71,575	72,380	63,979	72,233
Net Profit	11,005	10,900	9,745	10,480
EPS, CNY	1.68	1.07	0.95	1.02
P/E, x	3.6	6.0	6.7	6.3
BVPS, CNY	10.60	7.49	8.06	8.74
P/BV, x	0.6	0.8	0.8	0.7
DPS (CNY)	0.53	0.38	0.35	0.38
Div. Yield (%)	8.7%	6.0%	5.5%	5.9%

Source: Company reports, Phillip Securities Est.

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

What's worth mentioning is that, in H1, GAC sold 10,900 NEV self-brand vehicles, an increase of 73% yoy. Among them, Aion S, the new EV model launched in May, enjoyed an outstanding performance. It sold 3,061 vehicles in May and June, with an accumulated order volume of over 50,000 vehicles. As planned, it will deliver 3,000 vehicles in July, and 5,000 after August. Other three new energy models on sale are GA3S PHEV, GE3 530 and GS4 PHEV. By the end of this year, it will launch Aion LX, an EV SUV, which has a NEDC endurance mileage up to 600 miles and will compete with NIO ES6 and BYD Tang EV. As driven by the accelerated growth of new energy models, we expect the sales volume of its self-brands to do all they can to catch up.

Other brands recorded weak performance

Due to the concentration on SUVs of its production line and the lack of models, in H1, GAC FCA sold only 36,000 vehicles, a significant decrease of 49% yoy, and Renegade, Cherokee and Compass recorded a bad performance. GAC Mitsubishi Motors sold 630,000 vehicles, a decrease of 16% yoy, and Outlander and ASX recorded a declined sales volume. Due to the insufficient competitiveness in model varieties, we expect a lack of significant improvement of both in the short term.

Investment Thesis

Thanks to the strong momentum of GAC Toyota/GAC Honda, the Company's result safety mat is thicker; the self-owned brands are expected to gradually stabilize and rebound under the help of the new generation models and new energy models. We revised the Company's 2019/2020 earnings forecast. We give the "Buy" rating with the target price to HKD 9, equivalent to 8.4/7.8x P/E ratio in 2019/2020. (Closing price as at 7 Aug 2019)

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



Source: Bloomberg, Phillip Securities Hong Kong Research

Financials

FYE DEC	FY14	FY15	FY16	FY17	FY18F	FY19F
Valuation Ratios						
P/E (X), adj.	15.7	12.7	9.1	5.0	7.1	6.5
P/B (X)	1.4	1.4	1.3	0.8	1.1	1.0
Dividend payout Yield (%)	32.3%	30.6%	32.1%	32.2%	30.8%	31.6%
Dividend Yield (%)	2.1%	2.4%	3.5%	6.3%	4.3%	4.8%
Per share data (RMB)						
EPS, reported	0.49	0.65	0.98	1.68	1.23	1.34
EPS, adj.	0.49	0.65	0.97	1.65	1.22	1.33
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
Growth & Margins (%)						
Growth						
Revenue	18.9%	31.5%	68.0%	44.8%	5.7%	0.4%
EBIT	20.0%	39.8%	58.2%	67.6%	9.1%	11.2%
Net Income, adj.	20.1%	32.2%	49.3%	75.0%	14.0%	9.3%
Margins						
Gross margin	11.4%	11.7%	15.1%	18.0%	17.0%	17.3%
EBIT margin	15.0%	16.0%	15.0%	17.4%	17.9%	19.9%
Net Profit Margin	14.2%	14.3%	12.7%	15.4%	16.6%	18.0%
Key Ratios						
ROE (%)	9.3%	11.4%	15.2%	19.4%	17.0%	16.4%
ROA (%)	5.3%	6.5%	8.4%	10.9%	10.2%	10.3%
Income Statement (RMB mn)						
Revenue	22376	29418	49418	71575	75685	76010
Gross profit	2547	3444	7456	12858	12889	13157
EBIT	3359	4696	7427	12445	13572	15095
Profit before tax	3053	4386	7050	12194	13602	15067
Tax	-126	-400	-754	-1154	-985	-1266
Profit for the period	2926	3986	6295	11040	12617	13801
Minority interests	-259	-226	8	35	76	94
Total capital share	6435	6435	6439	6551	10231	10231
Net profit	3185	4212	6288	11005	12541	13707

Source: PSR

(Financial figures as at 7 August 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

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>.

© 2019 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

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

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

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

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

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

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

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

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

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

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

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