

GAC (2238 HK)

The Epidemic has a Short-term Hurt, But the Effect will be Limited in the Long Run

Hong Kong | Automobile | Update Report

Investment Summary

Sales Volume maintain Steadily in 2019: Japanese JVs Maintained Strong Momentum While Self-Brand Gradually Improved since H2

Domestic automobile market trend was downward through 2019 with an overall decrease of 9%. GAC outperformed the industry due to strong Japanese JV brands, achieving a sales volume of 2.0622 million for the year, down by approximately 4% yoy. The sales volume of GAC Honda was 771,000 units, up by 4% yoy. Among popular vehicle models, average monthly sales of the 10th generation Accord was approximately 20,000 units. Annual sales volumes of both Crider and Vezel exceeded 100,000 units. The sales volume of GAC Toyota for the year was 682,000 units, increasing by 17.6% yoy, which was a lot higher than the average. Hot models like Levin, Camry, CHR, and Highlander were best sellers in respective segments.

Compared with that of Honda and Toyota, annual sales volumes of joint venture brands like GAC Fiat and GAC Mitsubishi showed different ranges of decline. Sales volume of GAC Fiat in 2019 was 73,900 units, down by 40.96% yoy, while sales volume of GAC Mitsubishi for the year was 133,000 units, down by 7.64% yoy.

Annual sales volume of self-brand GAC Trumpchi was 384,600 units, down by 28.14% yoy. Product upgrade and actively reducing dealer inventory were the theme of 2019. It came to our attention that monthly sales has slightly improved since 2019H2.

The Epidemic has a Short-term Hurt on Automobile Market, But the Effect will be Limited in the Long Run

It was estimated that automobile sales in the first quarter of 2020 will be strongly suppressed by the epidemic. We predicted that sales volume of automobiles will decrease by more than 40% yoy in 2020Q1 and a rebound will not come until April. However, the epidemic also emphasizes the convenience of having a private car, which might help boost demand of first-time car buyers. In the medium term, suppressed demand of purchasing vehicles will be frequently released starting from the second quarter. Pro-consumption Policy introduced by government later will also be helpful of stimulating consumption potential. But the epidemic will definitely have a negative effect on the annual sales volume as it will have on macro economy. Industry recovery that was supposed to happen in later half of 2019 will be accordingly postponed. The effect epidemic had on market will be limited in the long run because a trend of industrial chain marching towards middle and high-end part of the value chain characterized as four modernization (intelligent, distributed, mobile, and participatory) remains unchanged. The fact that whether automobile manufacturers can make prospective and timely adjustments in response program, marketing model and supply chain management will be a critical factor of measuring their future competitive strength.

Policies Introduced by Guangzhou Government to Support Automobile Industry will Benefit GAC the Most

A policy on automobile consumption was introduced by Guangzhou government in early March, which indicates that quota of vehicle licence will soon increase 100,000. Meanwhile, allowance up to RMB10,000 will be distributed to individual consumers if they purchase new-energy vehicles and RMB3,000 allowance will be distributed to those replacing their old vehicles with new ones on China VI vehicle emission standards. We believe that the policy will promote consumption in Guangzhou City and as an automobile manufacturer with biggest market share in the area, GAC will benefit the most from it. It is possible that governments in other domestic cities might follow suit in the future.

11 March 2020

Accumulate (Maintain)

CMP HKD 8.66

(Closing price as at 9 March)

TARGET HKD 9.5 (+10%)

COMPANY DATA

O/S SHARES (MN):	10231
MARKET CAP (HKD MN):	26834
52 - WK HI/LO (HKD):	10.46 / 6.95

SHARE HOLDING PATTERN, %

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



Source: Aastock, Phillip Securities (HK) Research

KEY FINANCIALS

CNY mn	FY18	FY19E	FY20E	FY21E
Net Sales	72,380	60,879	65,023	73,575
Net Profit	10,900	7,811	8,854	11,243
EPS, CNY	1.07	0.76	0.87	1.10
P/E, x	7.2	10.1	8.9	7.0
BVPS, CNY	7.49	7.87	8.44	9.23
P/BV, x	1.0	1.0	0.9	0.8
DPS (CNY)	0.38	0.28	0.30	0.37
Div. Yield (%)	5.0%	3.6%	3.9%	4.8%

Source: Company reports, Phillip Securities Est.

Research Analyst

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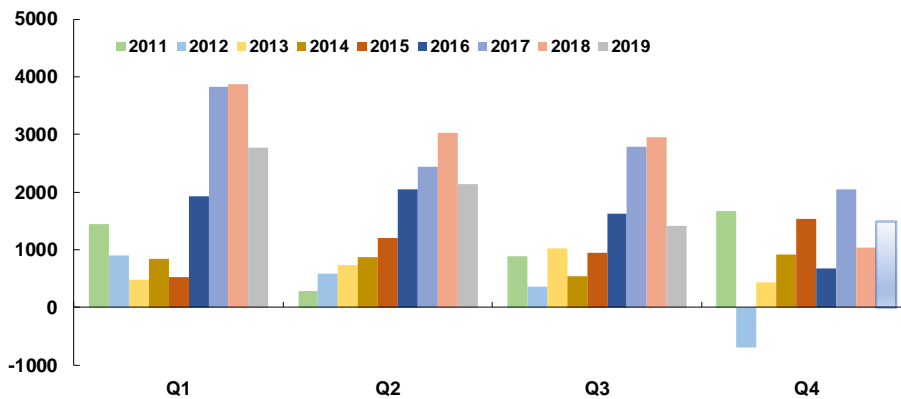
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Japanese joint venture brands are estimated to maintain a strong momentum of growth through 2020. GAC Honda Breeze launched in November last year and GAC Toyota Wildlander launched in February this year will continue to enhance product matrix of joint ventures in 2020. Furthermore, GAC Toyota will launch EV version of CHR and Mirai hydrogen-powered vehicle this year, while GAC Honda will launch the 4th generation Fit, Inspire Hybrid, Avancier Facelift and other new models. The production expansion project of GAC Toyota and GAC Honda is expected to be put into production at the end of the year. Each of the production capacity will increase by 120,000 to 240,000 units, which will accumulate strength for the development in the next stage. The new generation of Trumpchi is quite competitive compared with competitors. It was launched in November last year and went into mass production smoothly, which helped dramatically improve sales of GAC self-developed brand. Its future performance is worth looking forward to.

Investment Thesis

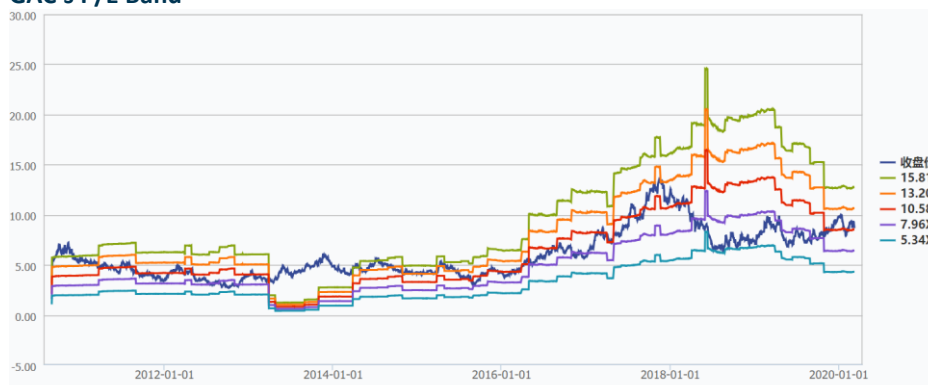
We revised the Company's 2019/2020/2021 earnings forecast. We give the "Accumulate" rating with the target price to HKD 9.5, equivalent to 11/9.8/7.7x P/E and 1.1/1.0/0.9x P/B ratio in 2019/2020/2021. (Closing price as at 9 March)

GAC's quarterly net profit



Source: Wind, Phillip Securities Hong Kong Research

GAC's P/E Band



Source: Wind, Phillip Securities Hong Kong Research

Financials

FYE DEC	FY16	FY17	FY18	FY19F	FY20F	FY21F
Valuation Ratios						
P/E (X), adj.	8.0	4.4	7.2	10.1	8.9	7.0
P/B (X)	1.1	0.7	1.0	1.0	0.9	0.8
Dividend payout Yield (%)	32.1%	32.2%	35.9%	36.7%	34.7%	33.8%
Dividend Yield (%)	4.0%	7.2%	5.0%	3.6%	3.9%	4.8%
Per share data (RMB)						
EPS, reported	0.98	1.68	1.07	0.76	0.87	1.10
EPS, adj.	0.97	1.65	1.06	0.76	0.86	1.09
DPS	0.31	0.53	0.38	0.28	0.30	0.37
BVPS	6.81	10.60	7.49	7.87	8.44	9.23
Growth & Margins (%)						
Growth						
Revenue	68.0%	44.8%	1.1%	-15.9%	6.8%	13.2%
EBIT	58.2%	67.6%	-5.4%	-34.4%	15.9%	26.6%
Net Income, adj.	49.3%	75.0%	-1.0%	-28.3%	13.4%	27.0%
Margins						
Gross margin	15.1%	18.0%	15.9%	9.1%	11.0%	14.4%
EBIT margin	15.0%	17.4%	16.3%	12.7%	13.8%	15.4%
Net Profit Margin	12.7%	15.4%	15.1%	12.8%	13.6%	15.3%
Key Ratios						
ROE (%)	15.2%	19.4%	14.9%	9.9%	10.6%	12.4%
ROA (%)	8.4%	10.9%	8.7%	5.9%	6.6%	7.8%

Income Statement (RMB mn)						
Revenue	49418	71575	72379.8	60879	65023	73575
Gross profit	7456	12858	11544	5552	7159	10587
EBIT	7427	12445	11773	7721	8946	11327
Profit before tax	7050	12194	11863	7862	9055	11477
Tax	-754	-1154	-921	66	-66	-90
Profit for the period	6295	11040	10942	7928	8989	11387
Minority interests	8	35	43	117	135	144
Total capital share	6439	6551	10231	10231	10231	10231
Net profit	6288	11005	10900	7811	8854	11243

Source: PSR

(Closing price as at 9 March)

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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