

Geely (175 HK)

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Hong Kong | Automobile | Update Report

30 December 2020

Investment Summary

Sales Volume in November Continues to Grow, up by 5% yoy

In November, Geely Auto reported a sales volume of 150,517 units in the wholesale market, up 5% yoy and up 7% mom, continuing the trend of recovery since April. In terms of markets, the overseas sales volume was 11,769 units, a sharp increase of 271% yoy; the domestic sales volume was 138,748 units, basically the same on a year-on-year basis, with a slight decrease of 0.9%. Meanwhile, Geely Auto's total sales volume in the first 11 months of 2020 reached 1,166,015 units, down by 5% yoy. The decrease continued to narrow from last month's -7%. The Company has already completed 88% of its annual target of 1.32 million units. In view of the peak season at the end of the year and the sales promotion of the car companies, the Company is expected to be quite certain to achieve the annual target.

Main Models Display Steady Performance

In terms of specific models:

- 1) The total sales volume of Emgrand and BoYue was close to 50,000 units, displaying steady performance. Specifically, Geely Auto sold 23,407 units of the Emgrand and 26,136 units of the Bo Yue. The sales volume of the both exceeded 20,000 units for four consecutive months, ranking the first echelon in the market segment.
- 2) Binyue continued its strong momentum, with more than 10,000 units sold for six consecutive months and 15,556 units contributed in November.
- 3) The Lynk & Co brand sold a total of 22,798 units in November, a sharp increase of approximately 61% yoy and an increase of approximately 4% mom. In the first 11 months of 2020, Lynk & Co's cumulative sales volume reached 150,603 units, up by 28.4% yoy. The increase was mainly contributed by the Lynk & Co 03 and the new models 05 and 06. Specifically, the sales volume of the Lynk & Co 03 exceeded 7,000 units for three consecutive months. We think this shows that the Company's high-end sub-brand strategy initially achieved success, and the rising trend of Lynk & Co is further highlighted.

Sales Volume of New Model is worth Anticipating

Geely Xingrui, a new model that has attracted the attention of the market, recorded a sales volume of 7,017 units in the first month of its launch. As the first sedan model based on the new CMA platform, Geely Xingrui is the first representative of Geely to start the 4.0 era of brand upgrade. It is very competitive compared with competitive products in terms of technology configuration, space size and power system. Xingrui, equipped with Volvo's 2.0T engine and 7DCT gearbox, with a maximum power of 140 KW and a maximum torque of 300 N•m, is the first fuel sedan to achieve a full OTA upgrade. We expect Geely Xingrui to become the Company's other main model. The follow-up sales volume is worth anticipating..

BUY (Upgrade)

CMP HKD 24.5

(Closing price as at 28 December)

TARGET HKD 31 (+26.5%)

COMPANY DATA

O/S SHARES (MN) :	9167
MARKET CAP (HKD MN) :	240487
52 - WK HI/LO (HKD):	24.45/10.00

SHARE HOLDING PATTERN, %

Proper Glory Holding Inc.	26.87
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PRICE VS. HSI



Source: Aastock, Phillip Securities (HK) Research

KEY FINANCIALS

CNY bn	FY19	FY20E	FY21E	FY22E
Net Sales	97,401	92,313	107,332	122,080
Net Profit	8,190	7,475	11,035	14,462
EPS, CNY	0.90	0.80	1.19	1.56
P/E, x	24.4	25.7	17.4	13.3
BVPS, CNY	5.62	6.20	7.26	8.40
P/BV, x	3.9	3.3	2.8	2.5
DPS (CNY)	0.23	0.22	0.31	0.42
Div. Yield (%)	1.1%	1.0%	1.5%	2.0%

Source: Company reports, Phillip Securities Est.

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Overseas Layout is further Deepened

Although exports fell sharply in the first half of 2020 due to the COVID-19 pandemic, exports began to rebound significantly in the second half of the year. In the first 11 months, exports totalled 63,051 units, up by 15% yoy. Geely's Belarusian-based plant was ranked second in sales volume among all brands in the local passenger car market, with a market share of nearly 18%. The models such as Binyue Pro, Binrui and Boyue PRO were launched in many overseas countries (Saudi Arabia, the Philippines, Qatar, etc.), reflecting that Geely Auto is further deepening its overseas layout. It is worth noting that Lynk & Co's European plan was officially launched in October by setting up a new energy vehicle experience shop in Amsterdam and trying to launch a membership business model for flexible car use. Car users enjoy the after-sales maintenance system shared with Volvo XC40. More European countries will be covered in the future. We believe this marks a crucial step for Lynk & Co to build a "global new high-end brand". The new business innovation is worth anticipating.

SEA System Starts a New 4.0 Era

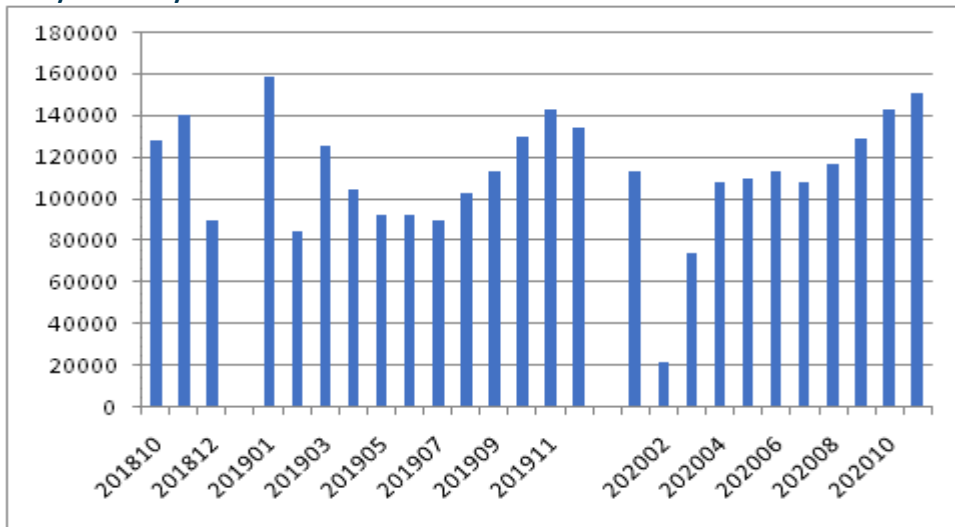
At the beginning of June, Geely announced the start of the "Technology Geely 4.0 Era", moving from the "3.0 era of fine cars" to the "4.0 era of car building with a comprehensive architecture system". At the Beijing Auto Show in September, Geely officially launched the Sustainable Experience Architecture (SEA), and the first concept car under the SEA, the Lynk & Co Zero Concept. The new architecture has a large bandwidth, covering A to E car levels. The software development cycle will be shortened by 50%. It provides self-developed electronic and electrical architecture-based OS development system from three-domain integration (smart cockpit domain, autonomous driving domain and vehicle control domain) to central integration, which can realize FOTA in all scenarios and full life cycles. Seven sub-brands under Geely Holding Group will all develop EV models of their respective brands based on the SEA. Currently, there are 16 models under development. In addition to the Lynk & Co Zero Concept, Geely Auto will launch at least five new models in the first half of 2021, including several new energy models. We believe that the successive launch of the new architecture models on the market will help change the current situation of tepid sales volume of the Company's new energy vehicles. The year 2021 will be the first year for Geely's technological transformation and the development of smart electric vehicles..

Investment Thesis

We believe that the current domestic auto market is starting a new round of recovery cycle, and the wave of vehicle intelligence and global vehicle electrification led by consumption upgrades is in the ascendant. All of these will provide support for the Company's new level of development. In addition, Geely's plan to return to the STAR Market to raise RMB20 billion was approved recently. The merger negotiations with Volvo are expected to restart. The integration and synergy at the capital level are worth anticipating, which may become a valuation catalyst.

We revised our target price to HK\$31, equivalent to 32.5/22/16.8x P/E ratio in 2020/2021/2022, and we give the rating of Buy. (Closing price as at 28 December)

Geely's monthly sales



Source: Wind, Company, Phillip Securities Hong Kong Research

Financials

For Financial Summary at the end of report

FYE DEC	FY18	FY19	FY20F	FY21F	FY22F
Valuation Ratios					
P/E (X), adj.	15.4	24.4	25.7	17.4	13.3
P/B (X)	4.3	3.9	3.3	2.8	2.5
Dividend Yield (%)	1.4%	1.1%	1.0%	1.5%	2.0%
Dividend payout ratio (%)	22.5%	26.2%	26.8%	26.1%	27.0%
Per share data (RMB)					
EPS, (Basic)	1.398	0.902	0.804	1.188	1.556
EPS, (Diluted)	1.368	0.892	0.803	1.186	1.554
DPS	0.309	0.234	0.215	0.310	0.420
BVPS	5.01	5.62	6.20	7.26	8.40
Growth & Margins (%)					
Growth					
Revenue	14.9%	-8.6%	-5.2%	16.3%	13.7%
EBIT	16.2%	-36.0%	-9.3%	49.4%	31.4%
Net Income, adj.	18.1%	-34.8%	-8.7%	47.6%	31.1%
Margins					
Gross margin	20.2%	17.4%	17.2%	19.4%	20.2%
EBIT margin	14.0%	9.8%	9.4%	12.0%	13.9%
Net Profit Margin	11.8%	8.4%	8.1%	10.3%	11.8%
Key ratios (%)					
ROE	31.6%	17.1%	13.8%	17.6%	19.9%
ROA	13.7%	7.8%	7.0%	9.5%	11.3%
Income Statement (RMB mn)					
Revenue	106,595	97,401	92,313	107,332	122,080
Gross profit	21,513	16,917	15,850	20,812	24,599
EBIT	14,880	9,528	8,643	12,916	16,969
Profit before tax	14,959	9,636	8,829	13,153	17,244
Tax	(2,285)	(1,375)	(1,298)	(2,026)	(2,673)
Profit for the period	12,674	8,261	7,531	11,127	14,571
Minority interests	(121)	(72)	(57)	(92)	(109)
Total capital share	8976.5	9080.734	9292	9292	9292
Net profit	12,553	8,190	7,475	11,035	14,462

Source: PSR

(Closing price as at 28 December)

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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