

Geely (175 HK)

Looking Forward to Bailing the Results out of Slump Driven by New Brand and New Vehicle-Cycle

Hong Kong | Automobile | Update Report

28 April 2021

Investment Summary

FY20 Results Significantly Fall Short of Expectations and Profitability Is under Pressure

Geely's total revenue in 2020 fell to RMB92.11 billion, down by 5% Y-o-Y. The profit attributable to shareholders was RMB5.53 billion, down by 32% Y-o-Y. The gross margin was 16%, down by 1.4 pts over the same period last year. The EPS was RMB0.56. The DPS was proposed to be HK\$0.20, with a dividend payout ratio of approximately 30%.

The results significantly fell short of market /our expectations by approximately 23% and 26%, respectively. The main reasons include not only 1) the COVID-19 pandemic, but also 2) the increase in depreciation and amortization expense ratio due to the overall decline in sales volume, 3) the gross profit margin being eroded by the rising costs of some raw materials, 4) the price-off promotion as some old models are approaching the end of their lifecycle, and 5) large investment of R&D expenses and sales and administration expenses in the new car cycle of the 4.0 era. As a result, the Company's annual gross margin was 1.2 pts lower than our expectation, while the sales and administration expense ratio was 1.5 pts higher than we expected. Finally, the profitability was under pressure. The net profit margin dropped by 2.4 pts to 6.0%, hitting a low since the Company's overall listing.

In 2020, Geely sold 1,320,200 units accumulatively, down by 3% Y-o-Y. From a regional perspective, the Chinese market contributed 94.5% of sales volume, with a total of 1,247,500 units, down by 4% Y-o-Y. The Chinese market contributed RMB85,597 million in sales revenue, down by 7.6% Y-o-Y. On the other hand, overseas markets have achieved positive returns after several years of cultivation. Last year, 73,000 units were sold accumulatively, up by 25% Y-o-Y. Overseas markets contributed RMB6,517 million in revenue, up by 37% Y-o-Y. However, the overall proportion remained small, which was less than 10%.

For the overall sales volume, the brand LYNK&CO has become a bright spot. It sold 175,000 units accumulatively throughout the year, up by approximately 37% Y-o-Y. It contributed RMB260 million to investment return; in addition, Genius Auto Finance Co., Ltd. contributed RMB580 million to return, driving the Company's investment return to a substantial increase by 32% to RMB875 million, which partially offset the adverse effects.

Operating cash flow was under pressure in H1, mainly due to the financial support for suppliers to extend the billing period during the pandemic. As the billing period returned to normal in H2, the operating cash flow was turned from negative to positive. The Company recorded a net inflow of RMB1.6 billion in the year. The cash balance at the end of the reporting period was RMB19 billion. The Company had abundant cash in hand, laying a solid foundation for the next stage of development.

BUY (Maintain)

CMP HKD 21.55
(Closing price as at 26 April)
TARGET HKD 26 (+20.6%)

COMPANY DATA

O/S SHARES (MN) :	9816
MARKET CAP (HKD MN) :	211625
52 - WK HI/LO (HKD):	36.45/10.4

SHARE HOLDING PATTERN, %

Proper Glory Holding Inc.	26.85
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PRICE VS. HSI



Source: Aastock, Phillip Securities (HK) Research

KEY FINANCIALS

CNY bn	FY20	FY21E	FY22E	FY23E
Net Sales	92,114	106,313	114,129	119,622
Net Profit	5,534	7,832	9,781	11,926
EPS, CNY	0.56	0.78	0.98	1.20
P/E, x	32.2	23.2	18.5	15.1
BVPS, CNY	6.30	6.78	7.60	8.50
P/BV, x	2.9	2.7	2.4	2.1
DPS (CNY)	0.17	0.24	0.30	0.37
Div. Yield (%)	0.9%	1.3%	1.7%	2.0%

Source: Company reports, Phillip Securities Est.

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At present, Geely has developed four basic modular architectures of BMA, CMA, SPA, and SEA. Its products cover pure electric, hybrid and fuel vehicles. In 2021, the Company will launch at least five new models: Xingyue L, a new generation of Emgrand, the first model based on the SPA architecture of LYNK&CO, a new model of the brand Geometry, and the first model based on the SEA structure of the brand Zeekr.

On the new energy vehicle track, as the Blue Geely Action Plan II, Geely launched the 001, the first model of the brand-new pure electric vehicle sub-brand Zeekr, at the 2021 Auto Shanghai, empowering the high-end intelligent pure electric vehicles. Judging from the latest orders, the pre-sales of new models were hot due to its advantages in technology configuration, space, interior, appearance, power system, and endurance mileage.

We believe that the successive launch of the models of new architecture (SEA and SPA), new brand (Zeekr) and new cycle (4.0 era) on the market will help the Company change the current situation of tepid sales volume of new energy vehicles, make up for the shortcomings in new energy models and increase brand premiums. The year 2021 will be the first year for Geely's technological upgrade and the development of intelligent electric vehicles. The improvement in results is anticipating.

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 equity design of Zeekr also maintains flexibility for the future introduction of strategic investors/seeking overseas listings. The integration and synergy at the capital level are worth anticipating, which may become a valuation catalyst.

We revised our target price to HK\$26, equivalent to 28/22/18x P/E ratio in 2021/2022/2023, and we give the rating of Buy. (Closing price as at 26 April)

Geely's Forward P/E P/B trends



Source: Bloomberg, Company, Phillip Securities Hong Kong Research

Financials

FYE DEC	FY18	FY19	FY20	FY21F	FY22F	FY23F
Valuation Ratios						
P/E (X), adj.	13.5	21.5	32.2	23.2	18.5	15.1
P/B (X)	3.8	3.5	2.9	2.7	2.4	2.1
Dividend Yield (%)	1.6%	1.2%	0.9%	1.3%	1.7%	2.0%
Dividend payout ratio (%)	22.5%	26.2%	30.1%	30.6%	30.6%	30.8%
Per share data (RMB)						
EPS, (Basic)	1.398	0.902	0.565	0.784	0.982	1.201
EPS, (Diluted)	1.368	0.892	0.564	0.783	0.981	1.200
DPS	0.309	0.234	0.170	0.240	0.300	0.370
BVPS	5.01	5.62	6.30	6.78	7.60	8.50
Growth & Margins (%)						
Growth						
Revenue	14.9%	-8.6%	-5.4%	15.4%	7.4%	4.8%
EBIT	16.2%	-36.0%	-34.6%	44.1%	28.2%	21.3%
Net Income, adj.	18.1%	-34.8%	-32.4%	41.5%	24.9%	21.9%
Margins						
Gross margin	20.2%	17.4%	16.0%	16.8%	17.7%	18.3%
EBIT margin	14.0%	9.8%	6.8%	8.4%	10.1%	11.7%
Net Profit Margin	11.8%	8.4%	6.0%	7.4%	8.6%	10.0%
Key ratios (%)						
ROE	31.6%	17.1%	9.9%	12.4%	13.9%	15.1%
ROA	13.7%	7.8%	5.0%	6.6%	7.6%	8.6%
Income Statement (RMB mn)						
Revenue	106,595	97,401	92,114	106,313	114,129	119,622
Gross profit	21,513	16,917	14,737	17,893	20,144	21,927
EBIT	14,880	9,528	6,233	8,983	11,518	13,976
Profit before tax	14,959	9,636	6,441	9,183	11,593	14,136
Tax	(2,285)	(1,375)	(866)	(1,286)	(1,739)	(2,120)
Profit for the period	12,674	8,261	5,575	7,897	9,854	12,016
Minority interests	(121)	(72)	(41)	(65)	(74)	(90)
Total capital share	8976.5	9080.734	9552.3	9816	9816	9816
Net profit	12,553	8,190	5,534	7,832	9,781	11,926

Source: PSR

(Closing price as at 26 April)

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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