

Geely (175 HK)

New vehicle effect to drive beyond-expectation sales volume in H2

Hong Kong | Automobile | Update Report

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Investment Summary

Efforts in battery parts M&A to ensure future battery supply for long-term and stable electrification

The Company recently announced that its subsidiary Jirun Automobile will establish a company with Sunwoda (300207.SZ) and Geely Auto Group, with a registered capital of RMB100 million. The contribution of the three companies is RMB41.5 million, RMB30 million and RMB28.5 million, respectively, accounting for 41.50%, 30% and 28.5%, respectively, of the total. The joint venture will produce HEV (including 48V) power battery packs to meet the demand of Zhejiang Jirun, Geely Group and their related parties for power battery products for all their HEV vehicles. After mass production is achieved, the peak annual production capacity in the first phase shall be at least 600,000 HEV (including 48V) power battery packs, and that in the second phase shall be at least 800,000 packs.

Sunwoda is a global leader in consumer battery packs, and it engaged in power battery business early. Up to now, Sunwoda has mass-produced BEV power cell energy density of 244Wh/kg and leading technologies, and has already owned new energy vehicle customers including Geely, Dongfeng Liuzhou Motor, Renault Nissan, Volvo, EJET, SAIC-GM-Wuling and XPeng, as well as electric bicycle customers including NIU, Hulong, Meierdun and Aima.

In the first half of 2021, 1206 thousand new energy vehicles were sold in China, a two-fold yoy increase, flat with that throughout 2019 and accounting for nearly 88% of the 1367 thousand vehicles in 2020. With the increasingly obvious trend of new energy vehicles, the demand for high-quality power batteries will continue to increase. Geely cooperating with Sunwoda, put efforts into the power battery sector to guarantee the supply while effectively reducing the cost of battery in the future.

New vehicle effect to drive beyond-expectation sales in H2

Due to chip shortage, a high base in the same period last year and fewer new models in the first half of this year, Geely sold 99275 vehicles ((including LYNK&CO) in July, down by 5.65% yoy and 0.9% mom, with a growth rate lower than the industry average. In particular, 18225 LYNK&CO were sold, up by 19% yoy and 6.7% mom, 7794 new energy vehicles were sold, up by 22% yoy and by 3.7% mom, and 7054 vehicles were exported overseas, up by 56% yoy and 0.2% mom.

In the first 7 months of this year, Geely sold 729.5 thousand vehicles in total, reaching 47.7% of its full-year target of 1.53 million. Specifically, it sold 38 thousand new energy vehicles and exported 60 thousand vehicles.

In the second half, Geely's sales volume is expected to grow beyond expectations with the launch of a series of blockbuster models including Preface Space-time Edition in mid-June, Binrui in early July, CMA-based Xingyue S and Xingyue L in late July and Binyue, New Emgrand in August, as well as the delivery of ZEEKR 001 from October. The new models are largely reserved. In 48 hours, over 10,000 Geely Xingyue L were ordered, and till now, this number reached about 30,000. Deliverable ZEEKR 001 in 2021 have been sold out, and over 60% of the customers ordered high-configuration models. We believe that the brand strategy integrating Xingyue and Xingrui and the high-end ZEEKR will contribute to the Company's product mix re-upgrading.

Accumulate (Dowgrade)

CMP HKD 27.05

(Closing price as at 9 August)

TARGET HKD 30.6 (+13%)

COMPANY DATA

O/S SHARES (MN) :	9816
MARKET CAP (HKD MN) :	265650
52 - WK HI/LO (HKD):	36.45/14.72

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 mn	FY20	FY21E	FY22E	FY23E
Net Sales	92,114	107,068	119,723	128,584
Net Profit	5,534	8,306	11,656	13,725
EPS, CNY	0.56	0.83	1.17	1.38
P/E, x	40.4	27.4	19.4	16.5
BVPS, CNY	6.30	6.81	7.75	8.81
P/BV, x	3.6	3.3	2.9	2.6
DPS (CNY)	0.17	0.25	0.36	0.42
Div. Yield (%)	0.7%	1.1%	1.6%	1.8%

Source: Company reports, Phillip Securities Est.

Research Analyst

ZhangJing (+ 86 021-51699400-103)

zhangjing@phillip.com.cn

Investment Thesis

We still believe that the trend of automobile intellectualization and global automobile electrification led by consumption upgrading is in the ascendant, and Geely, with efforts in chips, software/algorithms, high-precision maps and power batteries and possible capital integration in the future, is expected to boost its valuation.

We revised our financial forecast and target price to HK\$30.6, equivalent to 31/22/18.6x P/E ratio in 2021/2022/2023, and we give the rating of Accumulate. (Closing price as at 9 August)

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.	17.0	27.0	40.4	27.4	19.4	16.5
P/B (X)	4.7	4.3	3.6	3.3	2.9	2.6
Dividend Yield (%)	1.3%	1.0%	0.7%	1.1%	1.6%	1.8%
Dividend payout ratio (%)	22.5%	26.2%	30.1%	30.1%	30.7%	30.4%
Per share data (RMB)						
EPS, (Basic)	1.398	0.902	0.565	0.832	1.173	1.384
EPS, (Diluted)	1.368	0.892	0.564	0.831	1.172	1.383
DPS	0.309	0.234	0.170	0.250	0.360	0.420
BVPS	5.01	5.62	6.30	6.81	7.75	8.81
Growth & Margins (%)						
Growth						
Revenue	14.9%	-8.6%	-5.4%	16.2%	11.8%	7.4%
EBIT	16.2%	-36.0%	-34.6%	53.0%	43.0%	17.6%
Net Income, adj.	18.1%	-34.8%	-32.4%	50.1%	40.3%	17.8%
Margins						
Gross margin	20.2%	17.4%	16.0%	16.8%	18.2%	18.4%
EBIT margin	14.0%	9.8%	6.8%	8.9%	11.4%	12.5%
Net Profit Margin	11.8%	8.4%	6.0%	7.8%	9.7%	10.7%
Key ratios (%)						
ROE	31.6%	17.1%	9.9%	13.1%	16.3%	16.9%
ROA	13.7%	7.8%	5.0%	6.9%	8.6%	9.1%
Income Statement (RMB mn)						
Revenue	106,595	97,401	92,114	107,068	119,723	128,584
Gross profit	21,513	16,917	14,737	17,934	21,730	23,698
EBIT	14,880	9,528	6,233	9,539	13,641	16,044
Profit before tax	14,959	9,636	6,441	9,739	13,816	16,204
Tax	(2,285)	(1,375)	(866)	(1,363)	(2,072)	(2,382)
Profit for the period	12,674	8,261	5,575	8,376	11,744	13,822
Minority interests	(121)	(72)	(41)	(69)	(88)	(97)
Total capital share	8976.5	9080.734	9552.3	9816	9816	9816
Net profit	12,553	8,190	5,534	8,306	11,656	13,725

Source: PSR

(Closing price as at 9 August)

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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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 VIC 3000

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