Geely (175 HK)

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

Hong Kong | Automobile | Update Report

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 nigh-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.

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11 August 2021

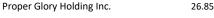
Accumulate (Dowgrade)

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, %





Source: Aastock, Phillip Securities (HK) Research

KEY FINANCIALS				
CNY mn	FY20	FY21E	FY22E	FY23E
Net Sales	92,1141	L07,068	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%
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Source: Company reports, Phillip Securities Est.

Research Analyst

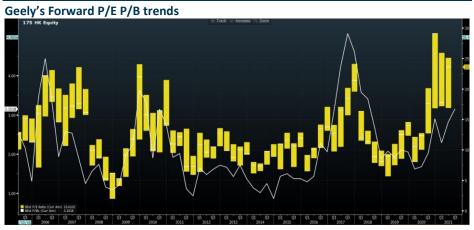
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GEELY

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)



Source: Bloomberg, Company, Phillip Securities Hong Kong Research



GEELY

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)



GEELY

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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