

# GAC (2238 HK)

## New Energy Vehicles Accelerate the Development

Hong Kong | Automobile | Update Report

13 January 2022

### BUY (Maintain)

CMP HKD 7.5

(Closing price as at 11 January)

TARGET HKD 10.3 (+37%)

#### COMPANY DATA

O/S SHARES (MN):	10349
MARKET CAP (HKD MN):	23240
52 - WK HI/LO (HKD):	10.08 /6.1

#### Company Profile

Currently, GAC's major segments cover R&D, vehicle (automobiles and motorcycles), parts, commerce services, financial services, and mobile travel service, developing a complete cycle of the automotive industry chain. By adhering to the strategy of "joint ventures + self-owned brands", the Company owns six major brands including GAC Honda, GAC Toyota, GAC Motor, GAC Aion, GAC FCA, and GAC Mitsubishi, as well as many best-selling models. GAC currently has a market share of 8.1% in China, ranking first in the market share of mid-to-high-end sedans.

#### Investment Summary

##### FY20 Profit Decreases by 10% yoy, Mainly Due to Impairment

In 2020, GAC recorded operating revenue of RMB63,157 million, up by 5.78% Y-o-Y; net profit attributable to the parent company was RMB5,966 million, down by 9.85% Y-o-Y; in addition to the impact of COVID-19 pandemic, the decline in results was mainly due to the large accrued expenses in the fourth quarter (provision for asset impairment of RMB720 million in a lump sum). After deducting non-recurring gains and losses, net profit attributable to the parent company was RMB4,807 million, up by 25.17% Y-o-Y. Self-owned brands achieved loss reduction. After deducting non-recurring gains and losses and return on investment, net loss attributable to the parent company was RMB5.1 billion, down by 12% Y-o-Y. EPS was RMB0.58, down by 11% Y-o-Y. The final dividend was RMB0.15 per share. Combined with the interim dividend of RMB 0.03 per share, the dividend payout ratio was 31%.

Gross margin decreased by 0.38 ppts Y-o-Y, mainly due to the negative effect of scale caused by the decline in sales volume of self-owned brands. The period expense ratio for the whole year decreased by 2.1 ppts Y-o-Y, mainly because the sales expense ratio fell by 1.86 ppts, and other expense ratios remained flat Y-o-Y. The R&D expenses totaled RMB5.1 billion, of which 17% was expensed. Joint ventures had a good profitability. The annual return on investment was RMB9,911 million, up by 2.96% Y-o-Y. Specifically, the return on investment in associates and joint ventures was RMB9,571 million, up by 1.83% Y-o-Y. At the end of 2020, monetary funds were RMB28.5 billion and interest-bearing liabilities were RMB14.8 billion.

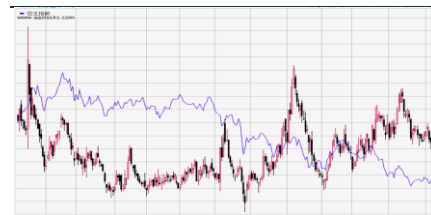
##### Japanese JVs Remain Strong Momentum While Self-owned Brands Make Continuous Improvement

In 2020, China's automobile market demonstrated a fall-rise pattern, with an overall decline of 1.9%, which is narrower than the previous year. GAC outperformed the industry relying on its strong Japanese brands. It achieved an annual sales volume of 2,043,800 units, down by approximately 0.9% Y-o-Y. Its market share increased to 8.07%. Specifically, Honda and Toyota still remained a strong momentum of growth. GAC Honda sold 805,800 units, up by 2.65% Y-o-Y; GAC Toyota reported an annual sales volume of 765,000 units, up by 12.2% Y-o-Y, far higher than the industry average.

#### SHARE HOLDING PATTERN, %

Guangzhou Automobile Industry Group Co., Ltd	50.36
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#### PRICE VS. HSI



Source: Aastock, Phillip Securities (HK) Research

#### KEY FINANCIALS

CNY mn	FY20	FY21E	FY22E	FY23E
Net Sales	63,157	73,418	84,793	97,406
Net Profit	5,964	8,375	10,241	10,192
EPS, CNY	0.58	0.61	0.90	1.22
P/E, x	10.9	10.4	7.0	5.2
BVPS, CNY	8.24	8.70	9.40	10.35
P/BV, x	0.8	0.7	0.7	0.6
DPS (CNY)	0.18	0.20	0.28	0.37
Div. Yield (%)	2.8%	3.2%	4.4%	5.9%

Source: Company reports, Phillip Securities Est.

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### GAC Honda and GAC Toyota Gradually Increase Q4 Sales Volume, and New Energy Vehicles Accelerate the Development

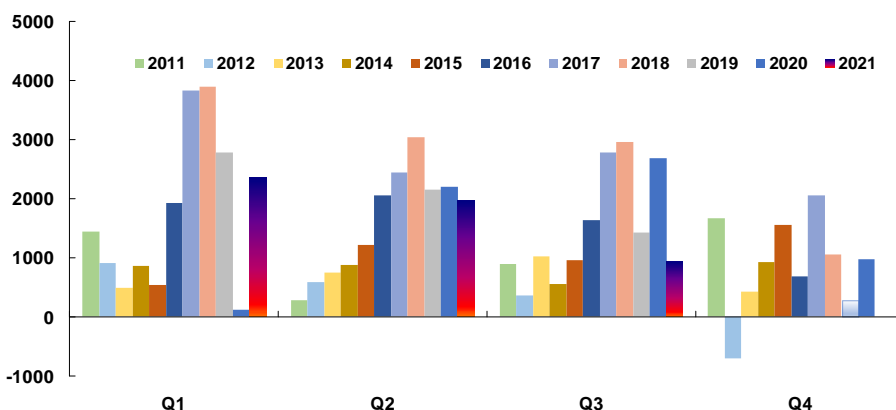
According to the latest sales data, since the fourth quarter, the sales volume of major automotive joint ventures has climbed month by month, reflecting that the chip shortage dilemma has been eased month by month. In Oct/Nov/Dec, GAC Honda sold 75.4/77.7/78.4 thousand units, +4.7%/+3.04%/+0.9% mom and -13.94%/-9.97%/-3.5% yoy respectively; As for GAC Toyota, it sold 61/85/99 thousand units, +26.29%/+39.34%/+15.9% mom and -15.3%/+9.82%/36.5% yoy. There was an obvious trend of recovery. Key models, such as Accord, Vezel, Levin, and Highlander, recorded good sales volume. Automotive joint ventures are starting a strong product cycle and speeding up the layout of new energy vehicles. The profitability is expected to rebound with the successive launch of new models, such as GAC Honda's Integra and e:NP1, and GAC Toyota's Sienna, Fenglanda, Venza, and bZ4X.

In terms of self-owned brands, GAC's self-owned brands sold 47/50.6/32.2 thousand units in Oct/Nov/Dec, +29.8%/+6.8%/-9.6% mom and +25.4%/+24.7%/+2.2% yoy. Specifically, the sales volume of Trumpchi Empow has exceeded 10 thousand units for two consecutive months. GAC Aion, a new energy vehicle brand, had strong terminal demand. Its shipments were second only to that of Tesla and BYD, and the sales volume has exceeded 10 thousand units for seven consecutive months. The new second-generation GS8 equipped with THS was launched in December. Aion LX Plus, which has a super miles range of over 1,000 km, is expected to be launched early 2022. In 2022, GAC Aion will have a new production capacity of 100 thousand units per year. The proportion of new energy vehicles is expected to be further increased. Recently, the asset reorganization and capital increase plan of GAC Aion has been determined, which will accelerate the launch process. In the future, GAC Aion's net assets will exceed RMB10 billion, and it will have complete R&D capabilities of new energy pure electrically-powered vehicles, independent production plant and its own pipelines. The accumulation of funds and technology and the improvement of efficiency will help GAC Aion store energy for the development of new energy vehicles.

### Investment Thesis

We expect that under the trend of accelerating the electric and intelligent layout, the Company's joint venture brands with Japanese companies will continue to expand their advantages. Self-owned brands are also expected to open up room for growth. We revised the Company's 2021/2022 and introduced 2023 earnings forecast. We maintain the "Buy" rating with the target price to HKD 10.3, equivalent to 14.2/9.6/7.1x P/E and 1.0/0.9/0.8x P/B ratio in 2021/2022/2023. (Closing price as at 11 January)

### GAC's quarterly net profit



Source: Wind, Phillip Securities Hong Kong Research

**GAC's Forward P/E Trend**


Source: Bloomberg, Phillip Securities Hong Kong Research

## Financials

FYE DEC	FY18	FY19	FY20	FY21F	FY22F	FY23F
<b>Valuation Ratios</b>						
P/E (X), adj.	6.2	10.5	10.9	10.4	7.0	5.2
P/B (X)	0.88	0.86	0.77	0.73	0.67	0.61
Dividend payout Yield (%)	35.9%	31.1%	31.0%	32.9%	30.9%	30.6%
Dividend Yield (%)	5.7%	3.0%	2.8%	3.2%	4.4%	5.9%
<b>Per share data (RMB)</b>						
EPS, reported	1.07	0.65	0.58	0.61	0.90	1.22
EPS, adj.	1.06	0.64	0.58	0.61	0.89	1.21
DPS	0.38	0.20	0.18	0.20	0.28	0.37
BVPS	7.49	7.83	8.24	8.70	9.40	10.35
<b>Growth &amp; Margins (%)</b>						
<b>Growth</b>						
Revenue	1.1%	-17.5%	5.8%	16.2%	15.5%	14.9%
EBIT	-5.4%	-45.6%	-10.1%	29.4%	36.2%	12.5%
Net Income, adj.	-1.0%	-39.3%	-9.9%	40.4%	22.3%	-0.5%
<b>Margins</b>						
Gross margin	15.9%	4.2%	3.6%	6.6%	8.7%	9.1%
EBIT margin	16.3%	10.7%	9.1%	10.1%	12.0%	11.7%
Net Profit Margin	15.1%	11.1%	9.4%	11.4%	12.1%	10.5%
<b>Key Ratios</b>						
ROE (%)	14.9%	8.4%	7.2%	7.2%	9.9%	12.4%
ROA (%)	8.7%	4.9%	4.3%	4.4%	6.3%	8.1%
<b>Income Statement (RMB mn)</b>						
Revenue	72379.78	59704	63156.985	73418	84793	97406
Gross profit	11544	2523	2296	4868	7394	8864
EBIT	11773	6400	5755	7449	10147	11419
Profit before tax	11863	6292	5692	7399	10082	11311
Tax	-921	417	356	-1065	-790	1346
Profit for the period	10942	6709	6048	8465	10351	10351
Minority interests	43	93	84	90	110	159
Total capital share	10231	10236	10238	10231	10231	10231
<b>Net profit</b>	<b>10900</b>	<b>6616</b>	<b>5964</b>	<b>8375</b>	<b>10241</b>	<b>10192</b>

Source: PSR

(Closing price as at 11 January)

### 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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