

14 January 2019

Consumer Cyclical | Automobiles & Components

Geely Automobile (175 HK)

Buy (Maintained)

Dec 2018 Sales Drop Casts Shadow On Growth

Target Price (Return) HKD14.20 (+28%)
 Price: HKD11.10
 Market Cap: USD99,697m
 Avg Daily Turnover (HKD/USD) 179m/45.7m

- **Maintain BUY with new TP of HKD14.20** from HKD23.98, 28% upside plus 2.7% 2019F yield, based on revised 8x 2019F P/E, or -0.5SD from its 3-year average (from 11x 2019F P/E). We cut our target P/E to factor in Geely's flat sales target for 2019, and the 15% drop in China's auto sales during 4Q18, which was worse than our expectations – we believe this trend may continue in 2019. Nevertheless, we believe Geely will likely continue to outperform the auto market in 2019, given its new model pipeline. As such, we are maintaining our BUY call with lower TP and earnings forecasts.

- **Geely likely to still outperform the auto market.** Following an update with management, there appears to be no change in the company's plans for the launching of new models in 2019. However, with concerns over a systematic slowdown in the wider market, the company has conservatively adjusted down its 2019 full-year sales target to 1.5m units (flat vs 2018). We cut our revenue and earnings forecasts by -3%/-21%/-28% and -4%/-21%/-38% for 2018F/2019F/2020F to reflect the sharp drop in Dec 2018 sales, and factoring in the flat sales target for 2019. However, relative to the wider Chinese auto market, we believe Geely will continue to outperform, based on its existing new model launch plans. We are projecting auto sales growth at Geely of 9% and 6% YoY, vs -8% and -8% for the Chinese auto market for 2019/2020. Despite the slower projected rate of growth in sales volume, the company's upcoming new *Geely* and *Lynk & Co* branded new models are expected to improve its revenue mix and ASP, thus resulting in better margins – this should offset some margin pressure from the competitive market in 2019.

- **Dec 2018 sales disappointed.** According to Geely, Dec 2018 sales fell by 39% due to efforts to destock. We are expecting a sharp drop in sales for some key models eg the *Vision* sedan (-71% MoM), *GL* (-44% MoM), and *Vision* SUV (-75% MoM) – these are mainly lower-end models. According to management, the tightening loan market resulted in dealers facing difficulties when stocking up on cars in the lead up to the coming peak season, which is the month before the Chinese Spring Festival. This was in addition to dealers' concerns over the sharp drop in 4Q18 sales due to efforts to destock. On the other hand, newly-launched models eg *Binyue* and *Binrui* both sold more than 10,000 units – these models may take away some sales from the *Emgrand* and *Vision* models. The positive news is that the two new models have ramped up quickly over the past few months to 10,000+ units per month.

- **Geely's 2018 sales of 1.5m units, +20% YoY, outperformed the wider Chinese auto market, which registered sales of -6% YoY.**

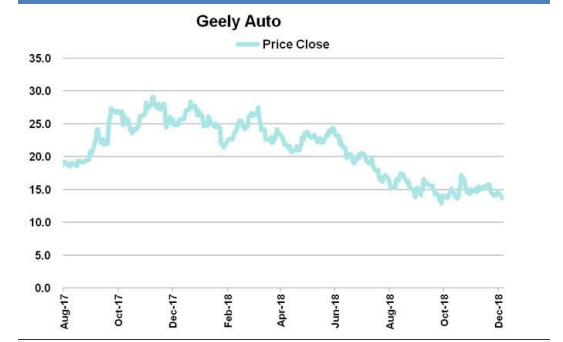
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(22.2)	(25.8)	(23.7)	(47.7)	(60.2)
Relative	1.5	0.6	1.7	(8.0)	(16.5)
52-wk Price low/high (HKD)	10.08 – 27.95				



Source: Bloomberg

Forecasts and Valuations	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Total turnover (CNYm)	53,722	92,761	107,043	109,163	115,520
Reported net profit (CNYm)	5,112	10,634	12,854	14,504	15,755
Recurring net profit (CNYm)	4,800	10,161	12,117	13,768	15,019
Recurring net profit growth (%)	112	112	19	14	9
Recurring EPS (CNY)	0.5	1.1	1.4	1.5	1.7
DPS (CNY)	0.1	0.2	0.3	0.3	0.4
Recurring P/E (x)	22.9	11.1	9.1	8.0	7.4
P/B (x)	0.0	3.2	2.5	2.0	1.6
Dividend Yield (%)	0.9	1.8	2.4	2.7	2.9
Return on average equity (%)	23	36	32	29	25
Net debt to equity (%)	net cash	net cash	3	2	2
Our vs cons. EPS (adjusted) (%)			-6	-2	-6

Source: Company data, RHB

Figure 1: Changes to P&L

(HKDm)	FY18F			FY19F		
	Original	New	chg (%)	Original	New	chg (%)
Revenue	110,732	107,043	-3%	137,603	109,163	-21%
Cost of goods sold	89,156	86,400	-3%	111,066	88,220	-21%
Gross Profit	21,576	20,643	-4%	26,536	20,943	-21%
Opex	-6,496	-6,274	-3%	-7,689	-6,473	-16%
Interest expense - net	-167	-167	0%	-172	-172	0%
JV	1,178	1,239	5%	5,719	3,126	NA
Profit before tax	16,091	15,441	-4%	24,394	17,424	-29%
Taxation	-2,568	-2,464	-4%	-3,893	-2,781	-29%
Minority Interests	-128	-123	-4%	-194	-139	-29%
Reported net profit	13,395	12,854	-4%	20,695	14,504	-30%
Recurring net profit	12,659	12,117	-4%	20,307	13,768	-32%
Gross profit margin (%)	19.4%	19.3%	-0.1%	19.4%	19.2%	-0.2%
Reported net profit margin (%)	14.5%	14.4%	-0.1%	17.7%	13.3%	-4.4%
Recurring net profit margin (%)	12.1%	12.0%	-0.1%	15.0%	12.6%	-2.4%

Source: Company data, RHB

Figure 2: DCF valuation

CNYm	2,019	2,020	2,021	2,022	2,023	TV
EBIT	14,070	14,823	15,564	16,342	17,159	
Tax rate	16%	16%	16%	16%	16%	
EBIT*(1-t)	11,825	12,457	13,080	13,734	14,421	
Dep	1,411	1,509	1,811	1,992	2,191	
Chg in working capital	1,159	2,690	3,227	3,873	4,648	
Capex	-9,561	-10,118	-12,141	-14,569	-17,483	
Dividends from investments	3,126	3,880	4,656	5,588	6,705	
FCFF	7,960	10,419	10,634	10,617	10,481	122,492
Discount factor	1	1	1	2	2	2
PV of FCFF	7,189	8,498	7,833	7,063	6,297	73,590
Present corporate value	110,469					
+ cash	21,502					
- Borrowings	-1,375					
Present equity value	130,596					
TP per share (HKD)	16.95					
Assumptions						
WACC	11%					
Risk-free rate	5%					
Beta	1.3					
Market return	10%					
Cost of equity	12%					
Cost of debt	6%					
Debt/(Debt+Equity)	20%					
Terminal growth	2%					

Source: RHB

14 January 2019

Consumer Cyclical | Automobiles & Components

Figure 3: Peer comparison I

Company	Ticker	Price	Mkt cap (USDm)	3-mth avg t/o (USDm)	PER Hist (x)	PER FY1 (x)	PER FY2 (x)	EPS FY1 YoY %	EPS FY2 YoY %	3-Yr EPS CAGR (%)	PEG (x)	Div yld Hist (%)	Div yld FY1 (%)	P/B Hist (x)	P/B FY1 (x)
GEELY AUTOMOBILE	175 HK	10.78	12,346	107.8	18.5	7.8	6.2	136.8	25.4	58.3	0.1	2.7	2.6	2.1	2.4
HSI		28,164			10.7	11.4	10.3	(6.2)	11.0	4.6	2.5	3.8	3.6	1.3	1.3
CSI300		3,351			12.4	11.3	9.8	9.3	15.3	13.3	0.9	2.4	2.7	1.6	1.5
Sector avg (Auto)					9.6	9.9	8.5	0.4	18.5	(0.1)	1.9	4.0	4.0	1.6	1.4
Chinese OEMs-H															
BYD CO LTD-H	1211 HK	45.20	18,162	41.1	20.8	27.8	32.9	(25.3)	(15.6)	(5.8)	N/A	0.4	0.4	2.1	1.8
GREAT WALL MOT-H	2333 HK	4.85	7,332	21.5	3.6	7.6	6.1	(52.4)	23.9	(12.9)	N/A	4.3	4.1	0.7	0.8
DONGFENG MOTOR-H	489 HK	7.44	8,174	9.9	3.9	3.9	3.9	0.7	(0.4)	0.6	6.5	5.5	4.8	0.5	0.5
GUANGZHOU AUTO-H	2238 HK	8.13	14,182	25.7	5.8	5.8	5.3	0.3	10.8	7.1	0.8	6.0	5.5	1.0	0.9
BRILLIANCE CHINA	1114 HK	6.48	4,169	30.8	6.4	4.4	3.7	47.3	18.7	26.0	0.2	1.7	2.4	1.0	0.9
BAIC MOTOR-H	1958 HK	4.47	4,568	9.4	12.8	5.6	4.5	130.7	23.3	48.9	0.1	2.6	5.8	0.7	0.6
Average					8.90	9.18	9.40	16.88	10.11	10.65	1.89	3.43	3.84	0.99	0.90
Chinese OEMs-A															
GREAT WALL MO-A	601633 CH	6.07	7,332	16.9	11.0	10.1	9.0	9.5	11.5	10.7	0.9	2.8	2.9	1.1	1.0
GUANGZHOU AUTO-A	601238 CH	10.39	14,182	11.1	8.7	8.5	7.7	1.8	10.3	8.6	1.0	3.9	3.8	1.4	1.3
SAIC MOTOR-A	600104 CH	25.34	43,816	85.1	8.6	8.0	7.5	7.3	6.6	7.4	1.1	7.2	7.7	1.3	1.2
CHONGQING CHAN-A	000625 CH	7.63	4,854	16.5	5.1	14.7	10.6	(65.2)	39.6	(18.9)	N/A	5.8	2.0	0.8	0.8
Average					8.34	10.32	8.70	(11.67)	16.98	1.94	1.01	4.95	4.10	1.14	1.08
European OEMs															
BAYER MOTOREN WK	BMW GY	71.83	53,612	135.3	5.5	6.9	6.7	(20.4)	3.1	(5.7)	N/A	5.6	5.4	0.8	0.8
DAIMLER AG	DAI GY	48.91	60,027	196.6	5.0	6.5	5.9	(23.0)	9.0	(5.3)	N/A	7.5	7.1	0.8	0.8
FIAT CHRYSLER AU	FCA IM	14.21	25,213	113.1	N/A	4.8	4.4	N/A	8.4	N/A	N/A	N/A	3.2	N/A	0.9
PEUGEOT SA	UG FP	20.31	21,084	53.1	9.3	6.3	5.5	48.8	14.6	19.9	0.3	2.6	3.8	1.2	1.1
RENAULT SA	RNO FP	55.34	18,774	82.6	2.9	3.9	3.7	(24.7)	4.5	(6.6)	N/A	6.4	6.7	0.5	0.4
VOLKSWAGEN AG	VOW GY	145.90	83,063	16.4	6.4	5.9	5.2	8.8	14.1	9.3	0.6	2.7	3.6	0.7	0.6
VOLKSWAGEN-PREF	VOW3 GY	142.18	82,998	188.7	6.3	5.8	5.1	8.8	14.1	9.3	0.6	2.8	3.6	0.7	0.6
Average					5.90	5.71	5.21	(0.30)	9.69	3.49	0.52	4.59	4.75	0.79	0.75
US OEMs															
FORD MOTOR CO	F US	8.82	35,085	435.3	4.6	6.7	6.9	(30.6)	(2.9)	(8.2)	N/A	8.3	7.9	1.0	0.9
GENERAL MOTORS C	GM US	37.18	52,476	466.8	N/A	5.9	6.2	N/A	(4.6)	(230.9)	N/A	4.1	4.1	1.4	1.4
Average					4.62	6.30	6.54	(30.63)	(3.77)	(119.52)	N/A	6.18	6.00	1.16	1.14
European OEMs															
SUBARU CORP	7270 JP	2,419	17,206	100.8	8.4	10.4	7.1	(19.4)	46.3	6.8	1.5	6.0	6.0	1.2	1.1
HONDA MOTOR CO	7267 JP	3,170	53,100	140.1	5.4	7.7	7.4	(30.1)	4.1	(7.8)	N/A	3.5	3.7	0.7	0.7
MAZDA MOTOR	7261 JP	1,184	6,915	54.5	6.5	12.7	8.4	(48.9)	50.9	(5.6)	N/A	3.0	3.0	0.6	0.6
NISSAN MOTOR CO	7201 JP	906	35,342	163.3	4.7	6.8	6.3	(29.9)	7.6	(6.4)	N/A	6.1	6.3	0.6	0.6
SUZUKI MOTOR	7269 JP	5,676	25,774	110.8	11.6	10.5	10.3	10.3	2.3	5.7	1.8	1.4	1.4	1.9	1.7
TOYOTA MOTOR	7203 JP	6,821	205,816	461.8	8.1	8.3	7.9	(2.4)	4.8	2.6	3.2	3.2	3.4	1.0	1.0
Average					7.45	9.40	7.90	(20.08)	19.33	(0.79)	2.20	3.85	3.94	1.00	0.95
Korean OEMs															
HYUNDAI MOTOR	005380 KS	121,500	23,118	72.3	8.1	12.3	8.4	(34.1)	46.4	3.2	3.8	0.8	3.3	0.4	0.5
KIA MOTORS CORP	000270 KS	33,650	12,147	27.6	13.9	9.1	7.3	53.2	25.1	29.4	0.3	2.4	2.8	0.5	0.5
Average					11.02	10.70	7.84	9.56	35.72	16.32	2.06	1.60	3.05	0.43	0.47
India OEMs															
ASHOK LEYLAND	AL IN	93.8	3,896	35.9	15.6	N/A	N/A	N/A	N/A	N/A	N/A	2.6	2.5	3.7	N/A
BAJAJ AUTO LTD	BJAUT IN	2,695.0	11,032	16.4	18.5	17.5	15.7	5.4	11.4	6.1	2.8	2.2	2.4	3.8	3.5
HERO MOTOCORP LT	HMCL IN	2,880.8	8,146	23.3	15.5	15.9	15.2	(2.5)	4.4	1.6	10.1	3.3	3.5	4.8	4.5
MAHINDRA & MAHIN	MM IN	721.4	12,695	40.3	10.4	14.9	13.1	(30.3)	14.1	(6.8)	N/A	1.0	1.3	2.1	2.0
MARUTI SUZUKI IN	MSIL IN	7,290.2	31,193	89.3	27.9	27.0	22.5	3.7	19.7	13.6	2.0	1.1	1.3	5.2	4.6
TATA MOTORS LTD	TTMT IN	178.9	7,992	43.2	6.8	21.2	7.9	(68.1)	169.4	5.2	4.1	N/A	0.7	0.6	0.6
Average		0	0	0	16	19	15	(18)	44	4	5	2.1	1.9	3.4	3.0
Turkish OEMs															
TOFAS	TOASO TI	17.60	1,603	6.8	6.8	5.9	5.3	17.0	9.4	13.3	0.4	9.1	9.2	3.0	2.4
FORD OTO	FROTO TI	55.50	3,548	3.6	13.1	10.0	8.5	30.7	18.2	23.1	0.4	6.2	6.7	5.7	4.8
Average					9.96	7.93	6.90	23.88	13.83	18.18	0.44	7.64	7.98	4.34	3.59

Source: Company data, RHB, Bloomberg

14 January 2019

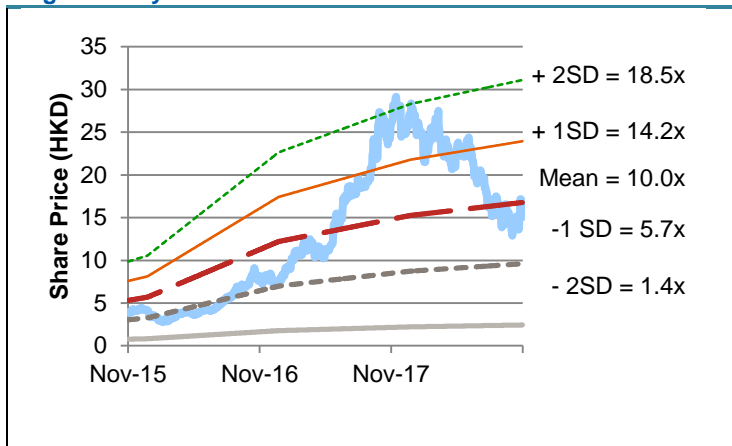
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Figure 4: Peer comparison II

Company	Rev Hist (USDm)	Rev FY1 (USDm)	NP Hist (USDm)	NP FY1 (USDm)	Unleveraged beta	Gross margin Hist (%)	Net margin Hist (%)	Net margin FY1 (%)	ROE Hist (%)	ROE FY1 (%)	Sh px 1-mth %	Sh px 3-mth %
GEELY AUTOMOBILE	13,728	13,728	1,574	1,574	1.7	19.4	11.5	11.5	38.7	35.7	(25.6)	(23.4)
HSI									12.1	11.0	(2.0)	(6.3)
CSI300									13.2	13.3	(4.7)	(10.0)
Sector avg (Auto)	62,091	65,161	3,351	3,470	0.9	17.7	9	10	16.6	15.6	0.2	(4.8)
Chinese OEMs												
BYD CO LTD-H	15,192	15,192	602	539	0.7	17.5	4.0	3.5	5.1	7.7	(21.0)	(9.7)
GREAT WALL MOT-H	14,395	14,973	744	744	0.8	15.6	5.2	5.0	12.9	10.4	2.3	0.4
DONGFENG MOTOR-H	18,502	17,224	2,081	2,106	0.7	12.9	11.2	12.2	14.0	12.5	8.1	(3.5)
GUANGZHOU AUTO-H	10,593	11,321	1,629	1,815	1.2	18.0	15.4	16.0	18.9	16.3	2.8	11.8
BRILLIANCE CHINA	785	747	648	968	1.3	3.5	82.5	129.5	19.9	21.6	4.2	(18.0)
BAIC MOTOR-H	19,855	22,527	333	804	1.2	26.5	1.7	3.6	9.4	12.2	1.4	(16.4)
GREAT WALL MO-A	14,395	14,785	744	827	0.8	15.6	5.2	5.6	12.4	10.7	3.2	(10.9)
GUANGZHOU AUTO-A	10,593	11,562	1,629	1,828	0.7	18.0	15.4	15.8	18.3	16.4	(1.1)	(2.0)
SAIC MOTOR-A	127,685	138,512	5,093	5,484	0.8	13.6	4.0	4.0	16.8	15.8	2.5	(10.7)
CHONGQING CHAN-A	11,387	11,028	1,056	399	N.A	9.8	9.3	3.6	5.3	5.6	17.6	17.6
Average	24,338	25,787	1,456	1,551	0.9	15.1	15.4	19.9	13.3	12.9	2.0	(4.1)
European OEMs												
BAYER MOTOREN WK	86,009	84,343	7,513	6,010	0.6	20.2	8.7	7.1	15.2	12.2	(3.3)	(3.6)
DAIMLER AG	143,232	144,595	9,174	7,095	1.0	20.9	6.4	4.9	14.1	12.5	3.2	(7.5)
FIAT CHRYSLER AU	96,691	100,039	3,043	3,909	1.3	15.3	3.1	3.9	14.4	18.5	2.6	1.7
PEUGEOT SA	56,838	65,219	1,681	2,688	1.1	18.6	3.0	4.1	14.7	19.5	11.4	(4.0)
RENAULT SA	51,225	50,831	4,457	3,448	1.1	20.9	8.7	6.8	14.3	11.6	(0.6)	(22.2)
VOLKSWAGEN AG	201,065	207,636	10,135	10,705	1.2	18.4	5.0	5.2	13.2	11.0	(0.4)	6.1
VOLKSWAGEN-PREF	201,065	207,636	10,135	10,705	1.3	18.4	5.0	5.2	13.2	11.0	(3.8)	1.4
Average	119,446	122,900	6,591	6,366	1.08	18.97	6	5	14.16	13.76	1.32	(4.00)
US OEMs												
FORD MOTOR CO	156,776	149,464	7,602	5,276	0.8	10.4	4.8	3.5	17.8	15.0	3.5	2.1
GENERAL MOTORS C	145,588	144,334	(3,864)	8,863	1.0	21.1	(2.7)	6.1	2.0	23.1	5.9	17.0
Average	151,182	146,899	1,869	7,069	0.89	15.76	1.10	4.84	9.87	19.02	4.72	9.52
European OEMs												
SUBARU CORP	31,489	29,836	2,038	1,634	0.7	28.3	6.5	5.5	11.7	11.1	(2.5)	(25.9)
HONDA MOTOR CO	142,049	146,479	9,796	6,780	N.A	21.9	6.9	4.6	14.1	8.9	3.8	2.5
MAZDA MOTOR	32,125	32,531	1,036	556	0.9	23.6	3.2	1.7	6.4	5.1	(4.6)	(8.0)
NISSAN MOTOR CO	110,516	109,034	6,907	4,839	N.A	17.9	6.2	4.4	13.6	9.4	(2.9)	(10.1)
SUZUKI MOTOR	34,744	36,046	1,995	2,263	0.6	29.4	5.7	6.3	18.9	17.6	4.8	(3.8)
TOYOTA MOTOR	271,680	276,633	23,063	21,874	0.6	18.7	8.5	7.9	14.0	12.4	(0.1)	3.2
Average	103,767	105,093	7,472	6,324	0.69	23.29	6.18	5.07	13.11	10.75	(0.26)	(7.02)
Korean OEMs												
HYUNDAI MOTOR	85,819	86,444	3,591	2,275	N.A	18.2	4.2	2.6	3.0	3.7	3.9	4.8
KIA MOTORS CORP	47,672	48,658	862	1,326	1	16.7	1.8	2.7	4.3	5.3	3.5	1.2
Average	66,746	67,551	2,227	1,800	0.54	17.45	3.00	2.68	3.64	4.50	3.70	2.98
India OEMs												
ASHOK LEYLAND	4,193	N/A	249	N/A	0.4	N/A	5.9	N/A	25.5	N/A	(9.9)	(19.0)
BAJAJ AUTO LTD	3,497	4,206	597	626	0.8	N/A	17.1	14.9	22.2	20.5	(4.6)	2.7
HERO MOTOCORP LT	4,503	4,998	527	516	0.8	N/A	11.7	10.3	33.4	28.8	(13.1)	(0.4)
MAHINDRA & MAHIN	11,592	12,810	1,063	800	0.7	N/A	9.2	6.2	22.6	14.9	(4.8)	(6.2)
MARUTI SUZUKI IN	11,059	12,440	1,116	1,158	1.1	N/A	10.1	9.3	19.8	17.8	(4.8)	0.1
TATA MOTORS LTD	40,857	44,886	1,273	421	1.2	N/A	3.1	0.9	0.4	3.2	7.1	(2.7)
Average	12,617	15,868	804	704	1	N/A	10	8	21	17	(5)	(4)
Turkish OEMs												
TOFAS	3,255	3,702	234	264	N.A	11.3	7.2	7.1	45.9	38.6	6.7	(20.6)
FORD OTO	4,616	6,227	271	343	N.A	10.4	5.9	5.5	50.5	49.3	11.1	(17.2)
Average	3,936	4,965	253	303	N/A	10.87	6.53	6.32	48.20	43.97	8.90	(18.94)

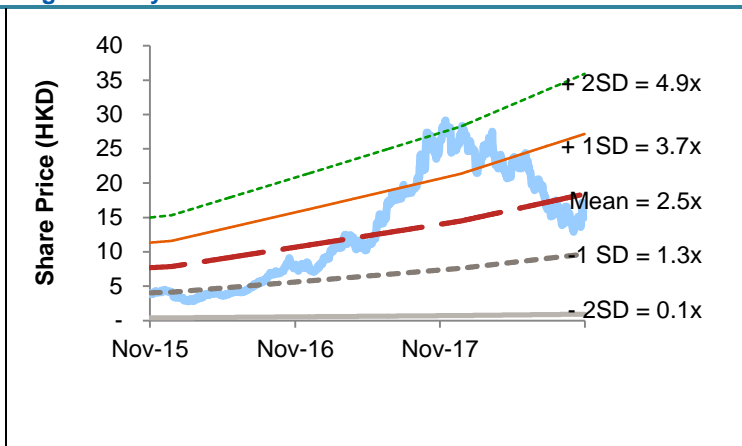
Source: Company data, RHB, Bloomberg

Figure 5: 3-year forward P/E



Source: Bloomberg, RHB

Figure 6: 3-year forward P/BV



Source: Bloomberg, RHB

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