

7 June 2018

Consumer Cyclical | Automobiles & Components

## Geely Automobile

**Buy** (Maintained)

Target Price: HKD29.00

Price: HKD23.30

Market Cap: USD26,597m

Bloomberg Ticker: 175 HK

### Another Month Of Robust Sales

Maintain BUY and TP of HKD29, offering 24% upside. Yesterday, Geely announced its auto sales data for May. It sold 123,068 units (+61% YoY) that month, which took 5M18 sales to 634,735 units (+44% YoY). This exceeds its full-year growth guidance of c.27% YoY. 5M18 sales accounted for c.40% of its full-year target of 1.58m units. The strong monthly sales were driven by *Vision* sedans (+62% YoY) and *Emgrand GL* (+78% YoY), with newly-launched models such as the *Vision S1*, *Vision X3*, and those from Lynk & Co. Note that sales of Lynk & Co's *C01* ramped up to 9,234 units, while sales of *Boyue* and *EC7* stabilised at over 200,000 units. We believe Geely may lift its full-year sales target in the mid-year to 1.65m units (33% YoY), from 1.58m units (+27% YoY), in light of encouraging response to the launches of its Lynk & Co and *Vision S1* and *X3* models.

Geely posted strong sales figures for another month, at 123,068 units (+61% YoY). This was driven by sales of its *Vision* sedan, the *Emgrand GL*, and new models such as the *Vision S1*, *Vision X3*, and those from Lynk & Co. We believe the strong monthly sales may continue into 3Q, driven by newly-launched models.

Lynk & Co's *C01* sales have ramped up. While auto sales in May are usually weak, Geely's 9,234 units of the Lynk & Co *C01*, implied a 2% MoM increase. We believe this is a decent number of units sold, for a model that is just six months old. Looking ahead, we think monthly sales may grow to over 10,000 units. Meanwhile, its *C02* model, to be launched in June, could be another successful model – as it is smaller and cheaper than the *C01*. The *C02*, a hatchback sport utility vehicle (SUV) designed to attract younger buyers, is backed by Volvo's compact modular architecture (CMA) platform.

Robust sales trend may continue into 3Q (projected to increase over 40% YoY), over the next five months. However, sales may slow in 4Q to 30% YoY, due to the high base. We expect the company to raise its full-year sales target to around 1.65m units (+33% YoY). Compared with China's projected auto sales growth of 3% YoY for 2018, we believe Geely would continue to grow its market share to 6.4% during 4M18, and 6.5% for 2018, from 3.2% in 2016 and 5.1% in 2017.

Figure 1: Monthly sales by brands

units	Vision	Emgrand EC7	GL	GS	Boyue	Vision SUV	Lynk &Co	Others	Total
May-17	7,098	14,251	7,214	10,026	21,142	8,040	0	8,775	76,546
May-18	11,489	20,288	12,822	12,777	21,292	10,285	9,234	24,881	123,068
Apr-18	12,417	19,941	12,749	12,425	23,025	10,983	9,079	26,338	126,957
YoY	62%	42%	78%	27%	1%	28%		184%	61%
mom	-7%	2%	1%	3%	-8%	-6%	2%	-6%	-3%
5M18	70,557	102,963	63,191	68,540	116,855	51,569	37,005	127,501	638,181
5M17	58,489	97,805	42,669	45,833	103,150	47,669	0	46,239	441,854
YoY	21%	5%	48%	50%	13%	8%		176%	44%

Source: Company data, RHB

Forecasts and Valuations	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Total turnover (CNYm)	53,722	92,761	111,970	123,191	143,564
Reported net profit (CNYm)	5,112	10,634	12,436	18,339	21,638
Recurring net profit (CNYm)	4,800	10,161	12,436	18,339	21,638
Recurring net profit growth (%)	112.4	111.7	22.4	47.5	18.0
Recurring EPS (CNY)	0.54	1.11	1.36	2.00	2.36
DPS (CNY)	0.11	0.22	0.26	0.39	0.46
Recurring P/E (x)	35.3	17.1	14.0	9.5	8.0
P/B (x)	6.85	4.92	3.78	2.84	2.19
P/CF (x)	14.5	14.1	11.3	9.0	8.4
Dividend Yield (%)	0.6	1.2	1.4	2.0	2.4
EV/EBITDA (x)	20.7	11.9	9.4	8.1	6.5
Return on average equity (%)	23.3	36.1	31.5	35.3	31.7
Net debt to equity	net cash	net cash	net cash	net cash	net cash
Our vs consensus EPS (adjusted) (%)			(11.3)	1.6	20.0

Source: Company data, RHB

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