

22 March 2019

Consumer Cyclical | Automobiles & Components

Geely Automobile (175 HK)

Buy (Maintained)

2019 To Remain Solid; Reiterate BUY

Target Price (Return) HKD15.86 (+10%)
 Price: HKD14.40
 Market Cap: USD17,313m
 Avg Daily Turnover (HKD/USD) 963m/121m

- **Keep BUY call with new HKD15.86 TP from HKD14.40, 10% upside, based on 2019F P/E of 9x or -0.5SD from its 3-year average.** We believe Geely will continue to outperform the auto market in 2019, supported by new model launches. Management sees flat 2019 sales, which we think is too conservative, although the 15% drop in sales for the wider Chinese auto market in 4Q18 is likely to set a downward trend for the industry in 2019, in our view.

- **Strong 2018 financials; 2019 likely to remain solid.** Key takeaways from Geely's analyst briefing on 21 Mar for its 2018 annual results:

- Geely delivered impressive results for 2018, with sales volume growth of 20% YoY and revenue growth of 15% YoY, while gross margins hit a record high of 20.2% driven by improving ASP and cost cuts;
- Management set a mixed tone for 2019's sales, with a flat sales target of 1.5m units, which we believe is too conservative based on our calculations and its new model launch pipeline. According to management, the company will launch three new models in 1H19 eg the *Jiaji* MPV, *Xingyue* SUV, and *Jihe* EV, and another two new models in 2H19. Although we see a tough Chinese auto market in 2019 with an 8% YoY decline in sales based on our estimates, we believe Geely will continue to beat the market average and deliver 1.6m units or +7% YoY. We are looking forward to the sales of the *Xingyue* Sports SUV, which is based on its CMA platform that is attractive to young buyers;
- COGS may be lower in 2019. 2018's COGS was high due to expenses incurred for the new CMA and BMA platforms. We expect cost savings on the platforms to buffer a potential drop in gross margins given the high possibility of a cut in ASP on Geely's focus to gain market share in 2019;
- Lynk & Co margin to improve, driven by the new C02 with the 2T engine version, which generates a higher margin vs the 1.5T version;
- 2018's ASP improved to CNY79,510 from CNY73,895 in 2017. We believe the improving ASP trend will continue, based on an improved revenue mix with upcoming new model launches.

- **Lynk & Co's cheaper new model to appeal to budget conscious buyers.** Given the weak auto market, JV brands and luxury brands have started to cut prices, and we see headwinds for Lynk & Co's sales as there is a pricing overlap between Lynk & Co's models and foreign JV brands. However, we are positive on the upcoming launch of the *Xingyue* SUV in Apr 2019, which is a downgraded version with a cheaper price but built on the same CMA platform. We believe *Xingyue* will satisfy demand from buyers with a lower budget.

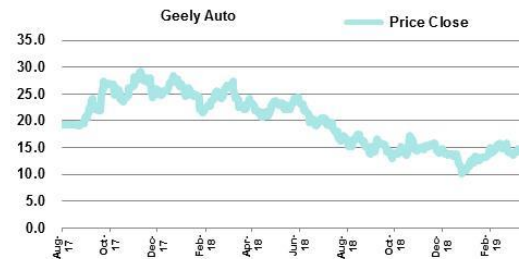
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Share Performance (%)

Share	YTD	1m	3m	6m	12m
̄ Absolute	6.81	(4.53)	6.50	(11.10)	(41.62)
Relative	(6.06)	(5.77)	(6.78)	(15.46)	(35.52)
52-wk Price low/high (HKD)	10.08 – 27.95				



Source: Bloomberg

Forecasts and Valuations	2017	2018	Dec 19F	Dec 20F	Dec 21F
Total turnover (CNYm)	92,761	106,595	119,230	128,282	131,274
Reported net profit (CNYm)	10,634	12,553	13,746	14,846	15,232
Recurring net profit (CNYm)	10,161	12,553	13,746	14,846	15,232
Recurring net profit growth (%)	112	24	10	8	3
Recurring EPS (CNY)	1.1	1.4	1.5	1.7	1.7
DPS (CNY)	0.2	0.3	0.3	0.4	0.4
Recurring P/E (x)	11.6	9.2	8.4	7.8	7.6
P/B (x)	3.4	2.6	2.1	1.7	1.7
Dividend Yield (%)	1.7	2.4	2.6	2.8	2.9
Return on average equity (%)	36	31	27	24	21
Net debt to equity (%)	net cash	8	6	5	5

Source: Company data, RHB

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Figure 1: Geely's 2018 and 2H18 financials

CNYm	2H18	2H17	YoY	2018	2017	YoY
Sales	52,887	53,337	-0.8%	106,595	92,761	14.9%
COGS	42,210	42,910	-1.6%	85,082	74,779	13.8%
Gross profit	10,676	10,427	2.4%	21,513	17,981	19.6%
Other income	468	568	-17.5%	1,237	1,229	0.6%
Selling and distribution	2,254	2,318	-2.8%	4,523	4,056	11.5%
G&A expense	2,169	1,742	24.5%	3,777	2,923	29.2%
Other expenses	7	14	-52.2%	15	28	-47.4%
Operating profit	6,716	6,921	-3.0%	14,435	12,204	18.3%
Income/ (loss) from JCE and associates	206	7	2948.4%	445	42	949.8%
Gain on disposal	-11	545	NA	0	563	NA
Net interest expense	-62	26	-337.2%	-79	35	-324.2%
PBT	6,972	7,447	-6.4%	14,959	12,774	17.1%
Taxation	1,045	1,115	-6.3%	2,285	2,039	12.1%
Net profit	5,927	6,332	-6.4%	12,674	10,735	18.1%
Minorities	55	59	-6.0%	121	102	19.2%
Net profit attributable	5,872	6,273	-6.4%	12,553	10,634	18.1%
Recurring	5,881	5,809	1.2%	12,553	10,161	23.5%
Key metrics						
Gross margin	20%	20%	0.6%	20%	19%	0.8%
Operating margin	13%	13%	-0.3%	14%	13%	0.4%
Net margin	11%	12%	-0.7%	12%	12%	0.3%
Selling as % of Sales	4%	4%	-0.1%	4%	4%	-0.1%
G&A as % of Sales	4%	3%	0.8%	4%	3%	0.4%
Tax rate	15%	15%	0.0%	15%	16%	-0.7%

Source: Company data, RHB

Figure 2: Forecast changes

(HKDm)	FY19F			FY20F			FY21F		
	Original	New	chg (%)	Original	New	chg (%)	Original	New	chg (%)
Revenue	109,163	119,230	9%	115,520	128,282	11%		131,274	
Cost of goods sold	88,220	95,524	8%	93,358	102,776	10%		105,567	
Gross Profit	20,943	23,706	13%	22,162	25,505	15%		25,706	
Opex	-6,473	-8,000	24%	-6,939	-8,664	25%		-8,952	
Interest expense - net	-172	-248	44%	-177	-262	48%		-275	
JV	3,126	924	NA	3,880	1,111	-71%		1,672	
Profit before tax	17,424	16,381	-6%	18,926	17,691	-7%		18,151	
Taxation	-2,781	-2,502	-10%	-3,020	-2,702	-11%		-2,772	
Minority Interests	-139	-133	-4%	-151	-143	-5%		-147	
Reported net profit	14,504	13,746	-5%	15,755	14,846	-6%		15,232	
Recurring net profit	13,768	13,746	0%	15,019	14,846	-1%		15,232	
Gross profit margin (%)	19.4%	19.9%	0.5%	19.4%	19.9%	0.5%		19.6%	
Reported net profit margin (%)	16.0%	11.5%	-4.4%	16.4%	11.6%	-4.8%		13.8%	
Recurring net profit margin (%)	13.3%	11.5%	-1.8%	13.6%	11.6%	-2.1%		11.6%	

Source: Company data, RHB

Figure 3: Geely's corroborative DCF valuation

CNYm	2019	2020	2021	2022	2023	TV
EBIT	15,706	16,842	16,754	18,430	19,351	
Tax rate	15%	15%	15%	15%	15%	
EBIT*(1-t)	13,307	14,269	14,196	15,615	16,396	
Dep	1,931	2,218	2,498	2,623	2,754	
Chg in working capital	-1,873	-1,344	-586	-586	-586	
Capex	-11,327	-12,187	-12,471	-12,471	-12,471	
Dividends from investments	924	1,111	1,672	1,755	1,843	
FCFF	2,962	4,067	5,309	6,937	7,937	105,738
Discount factor	1	1	1	1	2	2
PV of FCFF	2,701	3,382	4,026	4,798	5,006	66,691
Present corporate value	86,604					
+ cash	18,842					
- Borrowings	-3,526					
Present equity value	101,921					
DCF per share (HKD)		13.23				
Assumptions						
WACC	10%					
Risk-free rate	4%					
Beta	1.1					
Market return	10%					
Cost of equity	11%					
Cost of debt	5%					
Debt/(Debt + Equity)	20%					
Terminal growth	2%					

Source: Company data, RHB

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Figure 4: 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	14.42	16,508	121.5	24.5	10.3	8.6	136.8	20.3	47.6	0.2	2.0	2.0	2.8	3.2
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)					10.4	10.2	9.4	9.5	12.0	7.2	2.9	3.9	4.0	1.6	1.4
Chinese OEMs-H															
BYD CO LTD-H	1211 HK	50.35	20,772	38.6	22.9	30.7	45.7	(25.3)	(32.9)	(10.5)	N/A	0.3	0.3	2.3	2.0
GREAT WALL MOT-H	2333 HK	5.62	9,203	27.5	4.2	8.7	8.1	(52.4)	7.3	(15.3)	N/A	3.7	3.5	0.9	0.9
DONGFENG MOTOR-H	489 HK	8.10	8,893	8.8	4.2	4.2	4.3	(0.3)	(0.8)	(0.3)	N/A	5.1	4.5	0.5	0.5
GUANGZHOU AUTO-H	2238 HK	9.22	16,316	38.1	6.6	6.6	6.1	(1.3)	9.3	6.0	1.1	5.3	4.8	1.1	1.0
BRILLIANCE CHINA	1114 HK	7.22	4,642	18.7	7.1	4.9	4.2	44.6	17.0	24.7	0.2	1.5	2.3	1.1	1.0
BAIC MOTOR-H	1958 HK	4.79	4,892	6.5	13.6	6.4	5.2	114.0	23.2	42.4	0.2	2.5	5.2	0.7	0.7
Average					9.77	10.26	12.26	13.24	3.84	7.82	0.49	3.08	3.44	1.09	1.00
Chinese OEMs-A															
GREAT WALL MO-A	601633 CH	7.76	9,203	24.0	14.1	13.0	12.1	8.5	7.2	8.3	1.6	2.2	2.4	1.4	1.3
GUANGZHOU AUTO-A	601238 CH	11.90	16,316	19.1	9.9	10.0	9.0	(0.9)	10.6	7.5	1.3	3.4	3.3	1.6	1.5
SAIC MOTOR-A	600104 CH	26.17	45,646	141.9	8.8	8.3	7.9	5.9	5.7	6.3	1.3	7.0	7.3	1.3	1.2
CHONGQING CHAN-A	000625 CH	7.97	5,105	36.7	5.3	22.0	13.8	(75.7)	59.4	(21.5)	N/A	5.6	1.6	0.8	0.8
Average					9.55	13.34	10.72	(15.53)	20.72	0.15	1.41	4.55	3.64	1.28	1.22
European OEMs															
BAYER MOTOREN WK	BMW GY	71.15	52,553	109.5	6.6	6.9	6.7	(4.2)	3.2	0.6	10.7	5.6	5.3	0.8	0.8
DAIMLER AG	DAI GY	51.50	62,584	172.9	7.6	6.8	6.6	12.9	2.1	5.7	1.2	7.1	6.3	0.9	0.8
FIAT CHRYSLER AU	FCA IM	13.10	23,223	113.3	N/A	4.6	4.2	N/A	8.2	N/A	N/A	N/A	7.5	N/A	0.7
PEUGEOT SA	UG FP	22.20	22,817	47.0	7.0	6.1	5.7	15.4	7.3	7.0	0.9	2.4	4.3	1.2	1.0
RENAULT SA	RNO FP	59.78	20,081	62.3	4.9	4.4	4.3	10.6	2.5	5.7	0.8	5.9	6.1	0.5	0.4
VOLKSWAGEN AG	VOW GY	147.60	83,114	15.8	6.3	5.4	5.2	16.7	4.2	7.2	0.7	2.6	4.0	0.7	0.6
VOLKSWAGEN-PREF	VOW3 GY	142.94	83,156	151.8	6.1	5.2	5.0	16.7	4.2	7.2	0.7	2.8	4.2	0.7	0.6
Average					6.40	5.62	5.38	11.36	4.53	5.57	2.50	4.41	5.39	0.79	0.70
US OEMs															
FORD MOTOR CO	F US	8.66	34,529	382.6	9.3	7.3	6.6	26.9	11.3	19.3	0.4	6.9	6.6	1.0	0.9
GENERAL MOTORS C	GM US	37.32	52,595	392.3	6.7	5.7	5.9	16.5	(3.0)	7.6	0.8	4.1	4.1	1.3	1.2
Average					7.98	6.52	6.24	21.71	4.13	13.47	0.56	5.50	5.37	1.15	1.03
European OEMs															
SUBARU CORP	7270 JP	2,712	18,825	72.9	9.4	13.6	8.8	(30.8)	55.3	4.6	2.9	5.3	5.3	1.3	1.3
HONDA MOTOR CO	7267 JP	3,090	50,513	117.4	5.2	7.4	7.3	(29.8)	2.2	(8.5)	N/A	3.6	3.7	0.7	0.6
MAZDA MOTOR	7261 JP	1,256	7,161	42.7	6.9	13.8	9.4	(50.4)	47.2	(6.4)	N/A	2.8	2.8	0.7	0.6
NISSAN MOTOR CO	7201 JP	951	36,239	97.7	5.0	8.2	7.6	(38.9)	7.7	(10.4)	N/A	5.8	6.0	0.7	0.7
SUZUKI MOTOR	7269 JP	4,909	21,754	97.7	10.0	9.5	9.3	5.6	2.3	4.5	2.1	1.7	1.6	1.6	1.5
TOYOTA MOTOR	7203 JP	6,721	197,912	328.7	8.0	9.2	8.0	(13.3)	14.7	1.6	5.6	3.3	3.4	1.0	1.0
Average					7.42	10.30	8.40	(26.28)	21.57	(2.42)	3.56	3.73	3.79	1.00	0.96
Korean OEMs															
HYUNDAI MOTOR	005380 KS	124,500	23,571	64.1	22.1	9.3	8.0	137.1	16.7	39.8	0.2	3.2	3.4	0.4	0.5
KIA MOTORS CORP	000270 KS	34,200	12,284	29.5	11.9	7.5	6.7	57.9	11.4	21.1	0.4	2.6	3.0	0.5	0.5
Average					16.98	8.42	7.37	97.48	14.03	30.43	0.30	2.92	3.17	0.44	0.47
India OEMs															
ASHOK LEYLAND	AL IN	90.9	3,881	32.8	15.1	N/A	N/A	N/A	N/A	N/A	N/A	2.7	2.7	3.6	N/A
BAJAJ AUTO LTD	BJAUT IN	2,949.7	12,420	22.9	20.2	19.0	17.4	6.3	9.2	5.3	3.6	2.0	2.2	4.2	3.8
HERO MOTOCORP LT	HMCL IN	2,609.2	7,583	28.1	14.0	15.0	14.4	(6.6)	4.3	0.5	31.6	3.6	3.7	4.4	3.9
MAHINDRA & MAHIN	MM IN	678.6	12,276	43.0	9.8	14.5	12.3	(32.5)	17.8	(6.9)	N/A	1.1	1.4	2.0	1.9
MARUTI SUZUKI IN	MSIL IN	6,673.6	29,335	85.0	25.6	26.4	23.1	(3.1)	14.3	9.8	2.7	1.2	1.1	4.7	4.3
TATA MOTORS LTD	TTMT IN	180.2	8,231	47.6	6.8	N/A	10.4	N/A	N/A	(1.3)	N/A	N/A	0.6	0.6	0.8
Average		0	0	0	15	19	16	(9)	11	1	13	2.1	2.0	3.2	2.9
Turkish OEMs															
TOFAS	TOASO TI	18.75	1,716	3.8	7.0	6.2	5.2	13.7	18.9	14.2	0.4	9.4	9.0	2.5	2.2
FORD OTO	FROTO TI	48.86	3,138	4.2	10.2	7.7	6.4	31.5	20.8	20.2	0.4	7.0	7.8	4.4	4.0
Average					8.62	6.97	5.81	22.61	19.85	17.20	0.41	8.20	8.36	3.47	3.08

Source: Bloomberg, Company data, RHB

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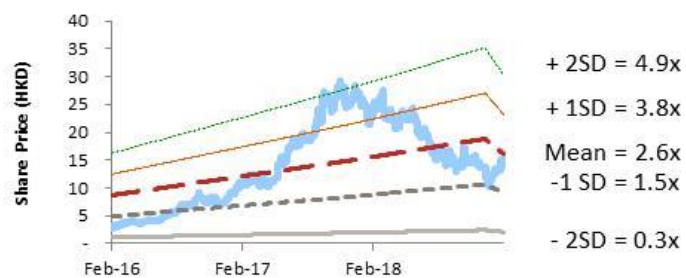
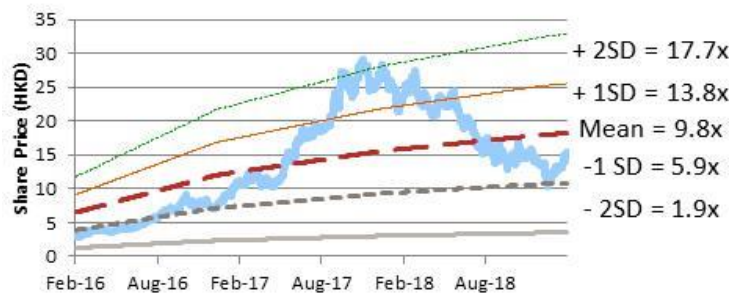
Figure 5: Peer comparison II

Company	Rev Hist (US\$m)	Rev FY1 (US\$m)	NP Hist (US\$m)	NP FY1 (US\$m)	Unlev beta	Gross margin Hist (%)	Net margin Hist (%)	Net margin FY1 (%)	ROE Hist (%)	ROE FY1 (%)	Sh px 1-mth %	Sh px 3-mth %
GEELY AUTOMOBILE	15,911	13,846	1,874	1,587	1.8	20.2	11.8	11.5	38.7	35.7	(6.6)	4.2
HSI									12.1	11.0	(2.0)	(6.3)
CSI300									13.2	13.3	(4.7)	(10.0)
Sector avg (Auto)	62,747	65,653	3,402	3,458	0.9	17.5	9	10	16.1	14.8	(3.3)	6.3
Chinese OEMs												
BYD CO LTD-H	15,323	15,323	607	544	0.7	17.5	4.0	3.5	5.2	7.7	0.2	(1.9)
GREAT WALL MOT-H	14,519	15,102	750	750	0.9	15.6	5.2	5.0	12.4	10.4	(14.1)	26.0
DONGFENG MOTOR-H	18,661	17,014	2,099	2,092	0.8	12.9	11.2	12.3	14.0	12.3	(7.0)	16.4
GUANGZHOU AUTO-H	10,684	11,169	1,643	1,795	1.3	18.0	15.4	16.1	18.9	16.1	(6.8)	17.6
BRILLIANCE CHINA	792	756	653	952	1.3	3.5	82.5	126.0	19.9	21.2	(8.6)	22.8
BAIC MOTOR-H	20,026	22,637	336	753	1.3	26.5	1.7	3.3	9.4	11.6	(11.9)	16.5
GREAT WALL MO-A	14,519	14,967	750	823	0.8	15.6	5.2	5.5	12.4	10.6	(5.5)	38.3
GUANGZHOU AUTO-A	10,684	11,456	1,643	1,824	0.7	18.0	15.4	15.9	18.3	16.5	(2.3)	15.0
SAIC MOTOR-A	128,783	137,896	5,136	5,445	0.7	13.6	4.0	3.9	16.8	15.7	(7.9)	2.2
CHONGQING CHAN-A	11,485	10,642	1,065	270	N.A	9.8	9.3	2.5	5.3	4.0	(8.1)	24.5
Average	24,547	25,696	1,468	1,525	0.9	15.1	15.4	19.4	13.3	12.6	(7.2)	17.7
European OEMs												
BAYER MOTOREN WK	85,817	87,569	6,266	5,985	0.6	19.0	7.3	6.8	12.8	11.6	(2.7)	(1.1)
DAIMLER AG	147,339	150,706	6,382	7,307	1.1	19.8	4.3	4.8	11.3	12.5	(1.2)	10.0
FIAT CHRYSLER AU	97,202	100,114	3,176	4,048	1.3	13.9	3.3	4.0	15.9	16.5	(0.1)	(0.2)
PEUGEOT SA	65,170	67,397	2,489	2,963	1.1	20.0	3.8	4.4	17.9	18.8	(0.7)	19.4
RENAULT SA	50,549	50,955	2,907	3,312	1.1	20.9	5.8	6.5	9.6	10.5	(0.3)	8.4
VOLKSWAGEN AG	207,632	215,633	10,684	12,363	1.2	19.7	5.1	5.7	11.7	11.7	(2.4)	2.1
VOLKSWAGEN-PREF	207,632	215,633	10,684	12,363	1.3	19.7	5.1	5.7	11.7	11.7	(2.5)	(0.3)
Average	123,049	126,858	6,084	6,906	1.11	18.99	5	5	12.97	13.33	(1.39)	5.49
US OEMs												
FORD MOTOR CO	160,338	148,071	3,677	4,460	0.7	9.1	2.3	3.0	10.3	10.2	(0.6)	7.5
GENERAL MOTORS C	147,049	146,706	8,014	9,275	0.9	17.9	5.4	6.3	21.4	22.5	(5.8)	13.1
Average	153,694	147,389	5,846	6,868	0.84	13.53	3.87	4.67	15.84	16.38	(3.22)	10.33
European OEMs												
SUBARU CORP	30,730	28,497	1,989	1,374	0.7	28.3	6.5	4.8	12.0	9.7	(3.9)	14.6
HONDA MOTOR CO	138,626	142,827	9,560	6,617	N.A	21.9	6.9	4.6	8.9	9.0	(1.1)	5.8
MAZDA MOTOR	31,351	32,062	1,011	521	0.9	23.6	3.2	1.6	5.4	4.9	(2.4)	6.6
NISSAN MOTOR CO	107,853	105,930	6,740	4,070	N.A	17.9	6.2	3.8	9.1	8.3	0.4	7.8
SUZUKI MOTOR	33,907	34,999	1,947	2,131	0.7	29.4	5.7	6.1	17.2	17.2	(14.5)	(11.8)
TOYOTA MOTOR	265,134	270,170	22,507	19,066	0.5	18.7	8.5	7.1	9.9	11.0	0.0	4.8
Average	101,267	102,414	7,292	5,630	0.70	23.29	6.18	4.68	10.43	10.00	(3.58)	4.62
Korean OEMs												
HYUNDAI MOTOR	85,853	89,045	1,337	3,010	0	15.6	1.6	3.4	1.7	4.8	2.9	1.6
KIA MOTORS CORP	48,037	49,756	1,025	1,630	1	14.8	2.1	3.3	4.3	6.5	(3.9)	1.0
Average	66,945	69,401	1,181	2,320	0.51	15.20	1.85	3.33	2.99	5.63	(0.52)	1.33
India OEMs												
ASHOK LEYLAND	4,303	N/A	256	N/A	0.5	N/A	5.9	N/A	25.5	N/A	11.0	(13.8)
BAJAJ AUTO LTD	3,588	4,314	613	651	0.8	N/A	17.1	15.1	22.2	20.5	4.7	5.0
HERO MOTOCORP LT	4,621	5,065	541	520	0.8	N/A	11.7	10.3	33.4	27.9	(2.6)	(21.5)
MAHINDRA & MAHIN	11,896	13,112	1,091	794	0.8	N/A	9.2	6.1	22.6	14.4	4.9	(13.1)
MARUTI SUZUKI IN	11,349	12,538	1,145	1,115	1.1	N/A	10.1	8.9	19.8	17.1	(3.5)	(11.4)
TATA MOTORS LTD	41,927	44,845	1,306	(60)	1.1	N/A	3.1	(0.1)	11.7	(2.6)	3.4	2.2
Average	12,947	15,975	825	604	1	N/A	10	8	23	15	3	(9)
Turkish OEMs												
TOFAS	3,498	3,890	244	277	N.A	13.2	7.0	7.1	36.5	36.3	(7.1)	14.2
FORD OTO	6,098	7,204	308	405	0.5	10.4	5.1	5.6	44.4	45.6	(10.9)	(7.3)
Average	4,798	5,547	276	341	0.47	11.78	6.01	6.37	40.43	40.97	(9.00)	3.45

Source: Bloomberg, Company data, RHB

Figure 6: 3-year forward P/E's

Figure 7: 3-year forward P/BVs



Source: Bloomberg, RHB

Source: Bloomberg, RHB

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