

10 July 2018

Consumer Cyclical | Automobiles & Components

Geely Automobile

Buy (Maintained)

Strong 1H18 From June Sales

Target Price: HKD29.00
 Price: HKD19.90
 Market Cap: USD22,787m
 Bloomberg Ticker: 175 HK

Maintain BUY and TP of HKD29.00, offering 46% upside. On 9 Jul, Geely announced June auto sales of 128,449 units, +45% YoY, driven by strong sales of GL (+68% YoY), EC7 (+29% YoY), and Lynk & Co models. However, sales only grew 4% MoM, due to the seasonally slow summer period. 6M18 total sales volume was 763,184 units (+44% YoY), or 49% of management's full-year target. Geely is our Top Pick in the auto sector.

Geely Automobile's June auto sales of 128,449 units rose 45% YoY, powered by strong GL, EC7 and Lynk & Co sales. However, this was only a 4% MoM rise, due to the usually slow summer period. 6M18 total sales volume was 763,184 units – up 44% YoY, making up 49% of management's full-year target.

Based on the sales driver analysis, we found that:

- There would be not much pressure for Geely to raise its 1.58m unit sales target (+27% YoY). Our forecast is 1.65m units (+32%);
- Geely brands posted a 35% YoY volume increase for 6M18, indicative of >35% of topline and bottomline growth, considering there has been no earnings contribution yet from Lynk & Co in 2018. In 1H18, incremental sales contributors were relatively higher ASP models, such as the GL, GS, and Vision X3 models. Also under the environment of 3% 6M18 YoY growth, Geely's strong sales may drive bargaining power over suppliers and decrease its fixed product line cost and SG&A expenses per car;
- Lynk & Co models were more popular than the WEY. A total of 10,481 VV5 and VV7 units were sold in June, while the C01 chalked up the sale of 9,274 units. As mentioned previously, WEY models have cannibalisation issues with the Haval series, while Lynk & Co differentiates itself as a brand new model series in the market;
- EC7 sales of 19,645 units (+29% YoY) were also impressive, considering that it has been one of the best selling sedan models in China for nine years. The model cycle is regarded as very long for a local brand.

Figure 1: Geely's monthly sales figures

units	Vision sedan	Emgrand EC7	GL	GS	Boyue	Vision SUV	Lynk & Co	Other Geely	Total
Jun-17	10,668	15,284	8,218	12,428	21,282	10,621	0	10,272	88,773
Jun-18	11,734	19,645	13,819	14,044	22,233	10,426	9,274	27,274	128,449
May-18	11,489	20,288	12,822	12,777	21,292	10,285	9,234	24,881	123,068
YoY	10%	29%	68%	13%	4%	-2%		166%	45%
mom	2%	-3%	8%	10%	4%	1%	0%	10%	4%
6M18	82,291	122,608	77,010	82,584	139,088	61,995	46,279	151,329	763,184
6M17	69,157	113,089	50,887	58,261	124,432	58,290	0	56,511	530,627
YoY	19%	8%	51%	42%	12%	6%		168%	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)	31.3	15.2	12.4	8.4	7.1
P/B (x)	6.09	4.37	3.36	2.52	1.95
P/CF (x)	12.9	12.6	10.0	8.0	7.5
Dividend Yield (%)	0.6	1.3	1.6	2.3	2.7
EV/EBITDA (x)	18.2	10.5	8.3	7.0	5.6
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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