

9 November 2018

Consumer Cyclical | Automobiles & Components

Geely Automobile

TP Cut On Slower Sales, Maintain BUY

Maintain BUY with new TP of HKD TP23.98, 59% upside – based on 11x 2019F P/E, or +0.5SD from its 3-year average. On 6 Nov, Geely announced its October sales of 128,986 units, +3% YoY – missed. Our full-year forecast is 1.64m units, +32% YoY, while 10M18 sales was 1.26m units, +33% YoY. We believe the sharp slowdown in sales growth could be temporary, and expect to see it rise to around 26% YoY in 2019.

October sales growth sees sharp slowdown. On 6 Nov, Geely announced its October auto sales volume growth of 3% YoY, which missed due to a slowdown from some major contributors, such as GS (-25% YoY), *Boyue* (-33% YoY), and *EC7* (-18% YoY). It was due to high base in 4Q17, as there were still pull forward sales, driven by tax cut. Also, the current price war with competitors, eg GWM (2333 HK, SELL, TP: HKD3.70) is offering CNY20,000 (or 20%) discount for the *H6* model, while Guangzhou Automobile Group (GAC) (2238 HK, NR) has a CNY10,000 (or 10%) discount for its *GS4* model. These two models are directly competitors to Geely's *Boyue* and *GS*.

Further, the whole auto sector is slowing down. China auto wholesale in October was -14% YoY, according to China Passenger Car Association (CPCA). The major reason of the slowdown was the high base in 4Q17, the Government's tightening of peer-to-peer (P2P) debt, of which some are auto loans, and the prosperous property market in lower-tier cities, which has displaced the family budget for auto.

As such, we cut our sales forecast from 1.77m units to 1.64m units for 2018 due to headwinds in the whole sector and competitor discounts. Our revenue and earnings forecasts are lowered by 6%/10%/17% and -15%/-16%/-18% for FY18-20 respectively to reflect worse-than-expected sales volume. The weakening sector may bring down Geely's future growth slightly. However, we believe the company still has a strong model portfolio, and the price war will not prolong.

Potential catalysts for sales recovery. Geely has a strong pipeline of models – newly launched *Binyue*, sold 5,029 units in the first month. Also, there are the newly launched *Binru* and *Lynk & Co 03* in October. It might take several months for these models to ramp up sales and offset the slowdown of major models. As we see it, GWM's and GAC's discount could be temporary, as GWM's 3Q losses was due to the deep discount it offered to buyers. We remain confident in the *Lynk & Co* brand – *C01* and *C02* have been ramping up well, with the recent launch of *C03* in October. Its inventory is currently at a health level. According to management, Geely inventory is now around 1-1.5 months as at end-October, which is quite healthy.

Maintain BUY with lower TP HKD23.98 based on 11x 2019F earnings, or +0.5SD from its 3-year average P/E. It is also backed by our DCF valuation of HKD24.8. We cut our valuation from +1SD to +0.5SD to reflect the headwinds affecting the whole sector. After the market correction YTD, we believe Geely has reached a low entering point. We view this as justified. Downside risks include unsuccessful sales from the *Lynk & Co* brand.

Buy (Maintained)

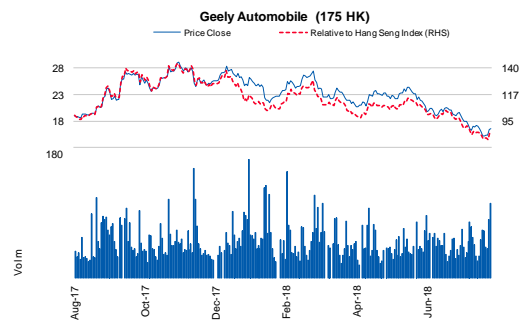
Target Price: HKD23.98
 Price: HKD15.08
 Market Cap: USD17,292m
 Bloomberg Ticker: 175 HK

Share Data

Avg Daily Turnover (HKD/USD) 932m/119m
 52-wk Price low/high (HKD) 12.8 - 29.8
 Free Float (%) 49
 Shares outstanding (m) 9,156
 Estimated Return 59%

Shareholders (%)

Proper Glory Holding Inc 29.5



Source: Bloomberg

Forecasts and Valuations	Dec-16	Dec-17	Dec 18F	Dec 19F	Dec 20F
Total turnover (CNYm)	53,722	92,761	110,732	124,195	133,332
Reported net profit (CNYm)	5,112	10,634	13,395	17,895	20,813
Recurring net profit (CNYm)	4,800	10,161	12,659	17,159	20,077
Recurring net profit growth (%)	112.4	111.7	24.6	35.5	17.0
Recurring EPS (CNY)	0.54	1.11	1.41	1.91	2.24
DPS (CNY)	0.11	0.22	0.30	0.41	0.47
Recurring P/E (x)	24.3	11.8	9.3	6.9	5.9
P/B (x)	4.7	3.4	2.6	2.0	1.6
Dividend Yield (%)	0.8	1.7	2.3	3.1	3.6
Return on average equity (%)	23.0	35.7	33.4	34.0	30.5
Net debt to equity (%)	net cash	net cash	2.9	2.3	1.8
Our vs consensus EPS (adjusted) (%)			(7.50)	1.44	2.58

Source: Company data, RHB

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Figure 1: Monthly sales

units	Vision sedan	Emgrand EC7	GL	GS	Boyue	Vision SUV	Lynk & Co	Total
Oct-17	11,571	24,813	13,513	16,063	30,138	11,214	0	125,118
Oct-18	11,200	20,349	12,857	12,025	20,247	10,090	15,435	128,986
Sep-18	10,273	16,884	12,515	13,388	21,268	8,461	14,875	124,429
YoY	-3%	-18%	-5%	-25%	-33%	-10%		3%
MoM	9%	21%	3%	-10%	-5%	19%	4%	4%
10M18	127,216	189,488	127,620	135,054	219,048	99,748	102,536	1,262,398
10M17	113,808	192,413	95,810	114,147	224,796	100,526	0	952,226
YoY	12%	-2%	33%	18%	-3%	-1%		33%

Source: Company data, RHB

Figure 2: Changes to P&L forecast

(HKDm)	FY18F			FY19F			FY20F		
	Original	New	chg (%)	Original	New	chg (%)	Original	New	chg (%)
Revenue	118,122	110,732	-6%	137,603	124,195	-10%	159,717	133,332	-17%
Cost of goods sold	95,107	89,156	-6%	111,066	100,245	-10%	128,916	107,619	-17%
Gross Profit	23,016	21,576	-6%	26,536	23,951	-10%	30,801	25,713	-17%
Opex	(6,469)	(6,496)	0%	(7,689)	(7,447)	-3%	(9,045)	(8,095)	-11%
Interest expense - net	(167)	(167)	0%	(172)	(172)	0%	(177)	(177)	0%
JV	1,475	1,178	NA	5,719	5,165	NA	8,218	7,562	NA
Profit before tax	17,855	16,091	-10%	24,394	21,497	-12%	29,796	25,002	-16%
Taxation	(2,849)	(2,568)	-10%	(3,893)	(3,431)	-12%	(4,755)	(3,990)	-16%
Minority Interests	(142)	(128)	-10%	(194)	(171)	-12%	(237)	(199)	-16%
Reported net profit	15,147	13,395	-12%	20,695	17,895	-14%	25,278	20,813	-18%
Recurring net profit	14,863	12,659	-15%	20,307	17,159	-16%	24,804	20,077	-19%
Gross profit margin (%)	19.4%	19.5%	0.1%	19.2%	19.3%	0.1%	19.2%	19.3%	0.1%
Reported net profit margin (%)	11.3%	12.1%	0.8%	15.2%	14.4%	-0.8%	15.4%	15.6%	0.2%
Recurring net profit margin (%)	11.1%	11.4%	0.3%	14.9%	13.8%	-1.1%	15.1%	15.1%	0.0%

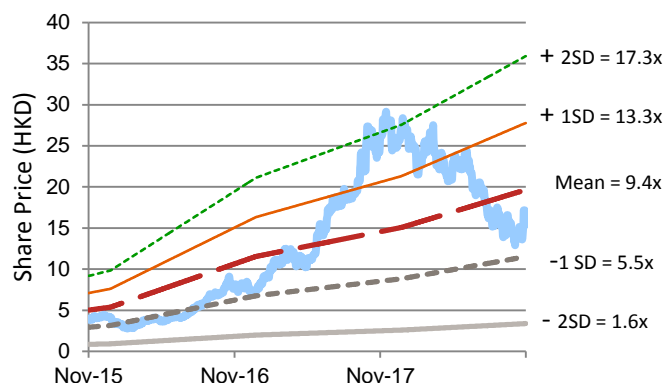
Source: Company data, RHB

Figure 3: Geely's DCF valuation

CNYm	2018F	2019F	2020F	2021F	2022F	2023F	TV
EBIT	14,680	16,104	19,324	21,257	23,383	25,721	
Tax rate	16%	16%	16%	16%	16%	16%	
EBIT*(1-t)	12,337	13,534	16,241	17,865	19,651	21,616	
Dep	1,249	1,383	1,659	1,991	2,190	2,409	
Chg in working capital	(1,494)	304	2,975	3,570	4,284	5,141	
Capex	(9,698)	(10,877)	(11,677)	(14,013)	(16,816)	(20,179)	
Dividends from investments	1,178	5,165	6,198	7,438	8,925	10,711	
FCFF	3,573	9,508	15,395	16,850	18,235	19,698	208,419
Discount factor	1.00	1.12	1.25	1.39	1.55	1.73	1.73
PV of FCFF	3,573	8,517	12,352	12,110	11,739	11,358	120,182
Present corporate value	179,831						
+ cash	17,256						
- Borrowings	(1,335)						
Present equity value	195,752						
DCF value per share							
TP (HKD)		24.8					
Assumptions							
WACC		11.6%					
Risk-free rate		4.5%					
Beta		1.5					
Market return		10.2%					
Cost of equity		13.1%					
Cost of debt		6%					
Debt/(Debt+Equity)		20%					
Terminal growth		2%					

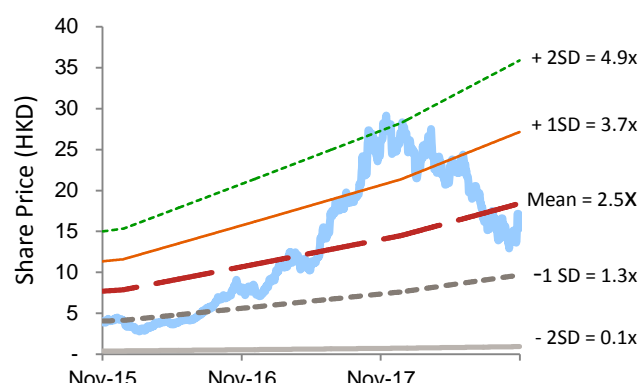
Source: Company data, RHB

Figure 4: 3-year forward P/E band



Source: Bloomberg, RHB

Figure 5: 3-year forward P/BV band



Source: Bloomberg, RHB

Figure 6: Peer comparison table I

Company	Ticker	Price	Mkt cap (US\$m)	3-mth avg t/o (US\$m)	P/E Hist (x)	P/E FY1 (x)	P/E 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	15.08	17,295	122.5	26.5	11.2	8.9	136.8	25.4	58.3	0.2	1.9	1.8	3.1	3.4
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)					10.3	9.7	8.6	4.3	16.0	0.5	1.2	3.8	2.4	1.7	1.2
Chinese OEMs-H															
BYD CO LTD-H	1211 HK	52.85	18,993	35.2	24.9	33.4	39.5	(25.3)	(15.6)	(5.8)	N/A	0.3	0.3	2.5	2.1
GREAT WALL MOT-H	2333 HK	4.78	7,303	26.7	3.7	7.7	6.2	(52.4)	23.9	(12.9)	N/A	4.4	4.0	0.8	0.8
DONGFENG MOTOR-H	489 HK	7.91	8,705	11.7	4.3	4.1	4.1	3.6	1.5	2.0	2.1	5.2	N/A	0.5	N/A
GUANGZHOU AUTO-H	2238 HK	8.43	14,787	29.3	6.2	6.0	5.4	2.9	11.3	7.3	0.8	5.8	N/A	1.0	N/A
BRILLIANCE CHINA	1114 HK	6.90	4,447	35.8	7.0	4.6	3.9	52.7	19.3	27.6	0.2	1.6	N/A	1.0	N/A
BAIC MOTOR-H	1958 HK	4.41	4,515	10.0	13.0	5.4	4.3	142.3	25.3	50.0	0.1	2.7	N/A	0.7	N/A
Average					9.86	10.20	10.56	20.65	10.96	11.38	0.80	3.33	2.16	1.09	1.46
Chinese OEMs-A															
GREAT WALL MO-A	601633 CH	6.22	7,304	14.8	11.3	10.1	9.0	11.6	12.1	10.1	1.0	2.7	2.7	1.1	1.1
GUANGZHOU AUTO-A	601238 CH	11.13	14,788	10.9	9.3	9.1	8.0	2.1	13.7	8.2	1.1	3.7	3.5	1.5	1.5
SAIC MOTOR-A	600104 CH	27.20	45,865	67.8	9.2	8.5	7.9	8.4	7.8	7.9	1.1	6.7	N/A	1.4	1.3
CHONGQING CHAN-A	000625 CH	6.44	4,196	14.4	4.3	8.3	6.8	(47.8)	21.5	(14.3)	N/A	6.9	5.3	0.7	N/A
Average					8.52	8.99	7.93	(6.41)	13.76	2.99	1.06	5.01	3.84	1.16	1.29
European OEMs															
BAYER MOTOREN WK	BMW GY	73.81	54,883	136.0	5.6	7.0	6.7	(19.4)	4.1	(4.9)	N/A	5.4	N/A	0.9	N/A
DAIMLER AG	DAI GY	52.04	63,680	176.9	5.3	6.5	6.1	(18.3)	6.5	(4.1)	N/A	7.0	N/A	0.9	N/A
FIAT CHRYSLER AU	FCA IM	14.80	26,176	117.1	N/A	4.9	4.5	N/A	8.3	N/A	N/A	N/A	N/A	N/A	N/A
PEUGEOT SA	UG FP	21.44	22,200	57.4	9.8	6.5	5.7	51.2	13.7	19.6	0.3	2.5	N/A	1.2	N/A
RENAULT SA	RNO FP	65.28	22,071	71.1	3.5	4.4	4.3	(22.1)	3.6	(5.9)	N/A	5.4	N/A	0.6	N/A
VOLKSWAGEN AG	VOW GY	151.60	87,755	14.1	6.7	6.1	5.3	9.9	14.7	9.1	0.7	2.6	N/A	0.7	N/A
VOLKSWAGEN-PREF	VOW3 GY	155.12	87,755	175.5	6.9	6.2	5.4	9.9	14.7	9.1	0.7	2.6	N/A	0.8	N/A
Average					6.29	5.95	5.44	1.85	9.39	3.84	0.56	4.25	N/A	0.84	N/A
US OEMs															
FORD MOTOR CO	F US	9.60	38,188	431.3	5.0	7.2	7.2	(30.5)	(0.2)	(7.1)	N/A	7.6	1.6	1.0	1.0
GENERAL MOTORS C	GM US	36.88	52,053	459.3	N/A	6.0	6.3	N/A	(4.5)	(229.3)	N/A	4.1	1.0	1.4	1.4
Average					5.03	6.61	6.76	(30.52)	(2.31)	(118.23)	N/A	5.86	1.30	1.20	1.19
Japanese OEMs															
SUBARU CORP	7270 JP	2,830	19,140	99.2	9.8	9.4	7.6	4.7	24.3	10.5	0.9	5.1	N/A	1.4	1.3
HONDA MOTOR CO	7267 JP	3,264	51,996	135.7	5.5	8.1	7.7	(31.5)	4.8	(7.8)	N/A	3.3	0.9	0.7	0.7
MAZDA MOTOR	7261 JP	1,227	6,818	50.4	6.7	11.0	8.1	(39.0)	35.3	(3.7)	N/A	2.9	N/A	0.6	0.6
NISSAN MOTOR CO	7201 JP	1,030	38,232	116.5	5.4	7.6	6.9	(28.6)	10.3	(5.2)	N/A	5.3	N/A	0.8	0.7
SUZUKI MOTOR	7269 JP	5,370	23,190	162.8	11.0	9.7	9.4	13.7	2.9	7.3	1.3	1.5	N/A	1.8	1.7
TOYOTA MOTOR	7203 JP	6,686	191,860	407.3	7.9	8.3	7.8	(4.0)	6.1	2.5	3.3	3.3	N/A	1.0	N/A
Average					7.73	8.99	7.91	(14.13)	13.94	0.59	1.85	3.56	0.92	1.04	1.01
Korean OEMs															
HYUNDAI MOTOR	005380 KS	105,500	20,222	54.0	7.0	10.2	7.1	(30.9)	43.1	4.7	2.2	3.8	3.8	0.3	0.4
KIA MOTORS CORP	000270 KS	28,500	10,364	29.6	11.8	7.7	5.9	52.8	31.5	31.1	0.2	2.8	2.8	0.4	0.4
Average					9.42	8.95	6.50	10.94	37.29	17.89	1.20	3.30	3.30	0.37	0.42

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India OEMs

ASHOK LEYLAND	AL IN	121.9	4,955	34.4	20.2	N/A	N/A	N/A	N/A	N/A	N/A	2.0	N/A	4.8	N/A
BAJAJ AUTO LTD	BJAUT IN	2,692.6	10,794	19.9	18.5	17.7	15.8	4.6	12.0	7.6	2.3	2.2	N/A	3.8	N/A
HERO MOTOCORP LT	HMCL IN	2,888.6	7,992	20.3	15.5	15.5	14.2	(0.1)	9.1	4.8	3.2	3.3	0.8	4.8	N/A
MAHINDRA & MAHIN	MM IN	792.9	13,656	37.7	11.5	15.4	13.3	(25.4)	15.6	(1.7)	N/A	0.9	N/A	2.3	N/A
MARUTI SUZUKI IN	MSIL IN	7,127.9	29,830	95.4	27.3	23.3	19.1	17.2	22.0	N/A	N/A	1.1	N/A	5.1	N/A
TATA MOTORS LTD	TTMT IN	194.9	8,539	55.0	7.4	17.1	7.9	(56.9)	117.0	7.2	2.4	N/A	N/A	N/A	N/A
Average		0	0	0	17	18	14	(12)	35	4	3	1.9	0.8	4.2	N/A

Turkish OEMs

TOFAS	TOASO TI	19.50	1,803	6.0	7.6	6.6	6.2	14.8	6.7	12.8	0.5	8.2	N/A	3.3	N/A
FORD OTO	FROTO TI	59.40	3,855	6.2	14.0	10.3	9.3	36.0	10.8	22.4	0.5	5.7	N/A	6.1	N/A
Average				10.79	8.45	7.74	25.39	8.72	17.62	0.49	6.96	N/A	4.70	N/A	N/A

Note: Data is as at 8 Nov 2018

Source: Bloomberg, RHB

Figure 7: Peer comparison table 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	13,387	13,387	1,535	1,535	1.8	19.4	11.5	11.5	38.7	35.7	6.6	(10.2)
HSI									12.1	11.0	(2.0)	(6.3)
CSI300									13.2	13.3	(4.7)	(10.0)
Sector avg (Auto)	61,094	20,482	3,279	1,025	0.9	17.7	9	9	17.0	17.5	(4.5)	(7.6)
Chinese OEMs												
BYD CO LTD-H	14,814	14,814	587	525	0.7	17.5	4.0	3.5	5.1	7.7	2.6	26.0
GREAT WALL MOT-H	14,037	14,600	726	726	0.8	15.6	5.2	5.0	12.9	10.4	(1.6)	0.6
DONGFENG MOTOR-H	18,042	N/A	2,030	N/A	0.7	12.9	11.2	N/A	14.0	N/A	(1.9)	3.0
GUANGZHOU AUTO-H	10,329	N/A	1,588	N/A	1.2	18.0	15.4	N/A	18.9	N/A	10.8	17.6
BRILLIANCE CHINA	766	455	632	415	1.2	3.5	82.5	91.3	19.9	N/A	(32.7)	(34.2)
BAIC MOTOR-H	19,361	13,724	325	387	1.1	26.5	1.7	2.8	9.4	N/A	(23.4)	(28.1)
GREAT WALL MO-A	14,037	4,670	726	166	0.8	15.6	5.2	3.6	12.4	9.0	(18.9)	(17.0)
GUANGZHOU AUTO-A	10,329	2,533	1,588	N/A	0.7	18.0	15.4	N/A	18.3	11.5	3.5	8.8
SAIC MOTOR-A	124,510	36,475	4,966	1,343	0.9	13.6	4.0	3.7	16.8	16.0	(9.4)	(6.3)
CHONGQING CHAN-A	11,103	4,894	1,030	923	N/A	9.8	9.3	18.9	5.3	53.7	(8.7)	(14.8)
Average	23,733	11,521	1,420	641	0.9	15.1	15.4	18.4	13.3	18.1	(8.0)	(4.4)
European OEMs												
BAYER MOTOREN WK	86,272	22,251	7,536	1,243	0.7	20.2	8.7	5.6	15.2	N/A	(4.1)	(12.7)
DAIMLER AG	143,670	40,053	9,202	1,864	1.1	20.9	6.4	4.7	14.1	N/A	(4.7)	(11.9)
FIAT CHRYSLER AU	96,987	25,388	3,052	1,058	1.2	15.3	3.1	4.2	14.4	28.1	(0.1)	1.2
PEUGEOT SA	57,012	N/A	1,686	N/A	1.1	18.6	3.0	N/A	14.7	N/A	(1.2)	(13.5)
RENAULT SA	51,381	15,610	4,471	N/A	1.1	20.9	8.7	N/A	14.3	N/A	(9.2)	(10.9)
VOLKSWAGEN AG	201,680	56,091	10,166	1,712	1.2	18.4	5.0	3.1	13.2	N/A	4.3	4.4
VOLKSWAGEN-PREF	201,680	56,091	10,166	1,712	1.4	18.4	5.0	3.1	13.2	N/A	5.5	4.9
Average	119,812	35,914	6,611	1,518	1.12	18.97	6	4	14.16	28.11	(1.34)	(5.49)
US OEMs												
FORD MOTOR CO	156,776	37,078	7,602	1,322	0.9	10.4	4.8	3.6	17.8	12.7	3.7	(4.5)
GENERAL MOTORS C	145,588	36,719	(3,864)	1,772	1.0	21.1	(2.7)	4.8	2.0	21.9	7.7	(2.1)
Average	151,182	36,898	1,869	1,547	0.94	15.76	1.10	4.20	9.87	17.30	5.68	(3.27)
European OEMs												
SUBARU CORP	29,949	7,837	1,938	681	0.8	28.3	6.5	8.7	11.7	19.5	(18.1)	(14.8)
HONDA MOTOR CO	135,102	34,538	9,317	1,546	N/A	21.9	6.9	4.5	14.1	8.2	(1.9)	(4.7)
MAZDA MOTOR	30,554	7,502	986	136	1.1	23.6	3.2	1.8	6.4	4.0	(8.5)	(8.7)
NISSAN MOTOR CO	105,111	25,960	6,569	1,154	N/A	17.9	6.2	4.4	14.3	7.4	(0.7)	(2.3)
SUZUKI MOTOR	33,045	8,207	1,897	475	0.6	29.4	5.7	5.8	18.9	16.3	(13.4)	(27.3)
TOYOTA MOTOR	258,395	66,442	21,935	5,374	0.6	18.7	8.5	8.1	14.0	N/A	(4.5)	(5.3)
Average	98,693	25,081	7,107	1,561	0.78	23.29	6.18	5.55	13.23	11.08	(7.84)	(10.53)
Korean OEMs												
HYUNDAI MOTOR	86,300	22,758	3,611	772	N/A	18.2	4.2	3.4	3.7	N/A	(13.5)	(17.3)
KIA MOTORS CORP	47,939	12,502	867	403	1	16.7	1.8	3.2	2.1	N/A	(15.9)	(11.4)
Average	67,120	17,630	2,239	587	0.58	17.45	3.00	3.31	2.89	N/A	(14.73)	(14.30)

Source: Bloomberg, RHB

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