

**Buy**

(Maintained)

**Automobile****Guangzhou Automobile Group****(601238.SH)**

Remarkable results shown by GAC's Japanese models, profit pressure put on GAC Motor and GAC FCA

4-Apr-19

**Key Data**

Mar. 31, 2019

Closing Price	11.68
Total Shares (Mn)	10233.72
Shares Outstanding (Mn)	9178.98
Market Cap(CNY/Mn)	119529.90
Market Float(CNY/Mn)	71018.58
Net Assets (CNY/Mn)	76549.83
Total Assets (CNY/Mn)	132119.73
BVPS	7.48

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**Key Financial Indicators**

FY	2018A	2019E	2020E	2021E
Revenue (Mn/CNY)	72380	73532	74131	80138
YoY (%)	1.1%	1.6%	0.8%	8.1%
Net Profit (Mn/CNY)	10903	10929	12844	14782
YoY (%)	1.1%	0.2%	17.5%	15.1%
Gross Margin (%)	19.5%	13.4%	15.1%	16.5%
Net Profit Margin (%)	15.1%	14.9%	17.3%	18.4%
ROE (%)	14.2%	12.5%	12.8%	12.8%
EPS (CNY)	1.07	1.07	1.26	1.44
OCFPS (CNY)	-0.12	0.17	0.88	0.49

**Company Profile**

Guangzhou Automobile Group Company Limited manufactures and sells automobiles. The Company vehicles, motorcycles, and other products. Guangzhou Automobile Group also provides automobile parts manufacturing, automotive business services, automotive finance, and other services. (Source: Bloomberg)

**Comments**

Guangzhou Automobile (the company) announced its financial reports for 2018, showing a 1.13% YoY growth in its operating revenue at CNY 72.38 bn; its net profit attributable to shareholders (NPAS) was CNY 10.90 bn (+1.08% YoY); net profit without impacts of non-recurring items was CNY 9.8 bn (-4.7% YoY); it planned to pay a cash dividend of CNY 2.8 (pre-tax) for every 10 shares.

For Q418, operating revenue was CNY 18.87 bn (-5.4% YoY); NPAS was CNY 1.04 bn (-42.9% YoY); net profit after non-recurring items was CNY 580 mn (-58.7% YoY); gross margin was 11.7% (-10.8 pcts YoY).

**GAC's revenue and profit basically remained flat on YoY basis; GAC's Japanese models delivered decent performance, while GAC Motor and GAC FCA operated under pressure.**

In 2018, the company sold a total of 2.15 mn units of vehicles (+7.3% YoY), of which sales volume of GAC Honda/ GAC Toyota/ GAC MITSUBISHI MOTORS/GAC Motor/ GAC FCA was 741,000 (+5.2% YoY)/580,000 (+31.1% YoY)/144,000 (+22.7% YoY)/535,000 (+5.2% YoY)/125,000 (-39.0% YoY). The company's 2018 NPAS basically stayed the same on YoY basis, coming in at CNY 10.9 bn. Among that, 1) investment income settled at CNY 9.0 bn (+8.1% YoY), which we estimate was mainly contributed by GAC Honda and GAC Toyota and slightly driven by GAC MITSUBISHI MOTORS but dragged down by GAC FCA; 2) GAC's results of "NPAS minus investment income" declined by 22.8% YoY to CNY 1.9 bn, mainly due to a YoY decrease in earnings caused by strengthening promotion of GAC Motor's models.

**The company incurred a sharp decline in its NPAS of Q418, resulting from more pressure on GAC Motor and a larger YoY decrease in GAC FCA.**

In Q418, operating revenue declined by 5.4% YoY to CNY 18.87 bn and gross margin fell by 10.9 pcts to 11.7%, mainly due to: 1) intensified promotion of major models such (as GS4 and GS8); 2) rebates recorded into costs instead of sales expenses according to new accounting standards. Net investment income in Q418 dropped by 9.6% YoY to CNY 1.33 bn, which was triggered by large losses on GAC FCA. GAC FCA sold a total of 15,000 units of vehicles, down by 43% YoY.

**Earnings forecast and investment recommendation: we expect GAC's Japanese models to remain strong**

**sales and expect GAC Motor and GAC FCA to achieve marginal improvement.**

The company plans to realize a sales growth of 8% for 2019, which we estimate the incremental sales shall be driven by GAC Motor and the joint ventures with Japan's auto manufacturers.

The company's Japanese models are expected to continue showing outstanding results, such as brand-new HR-V and Odyssey Hybrid of GCA Honda, a new generation of GAC Toyota Levin and Levin PHEV.

GAC Motor may embrace a marginal improvement through the launch of new model GM6, a new generation of GA6, the brand-new GS8 and a new generation of GS4.

GAC FCA may rely on the brand-new Cherokee and Grand Commander launched in H118 to contribute to the company's growth for 2019.

Based on the latest situation, we revised the estimated NPAS to CNY 10.93/12.84 bn for year 19/20 and expect the NPAS to be CNY 14.78 bn for 2021. We maintain "Buy" rating for the company.

**Potential risks:** a sharp decline in the industry's growth rate; a further decrease in GAC Motor; more losses on GAC FCA

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When measuring the difference between the markup of the industry index and that of the market's benchmarks (Shanghai Composite Index/Shenzhen Component Index) within twelve months after the release of the report, we define the terms as follows:

- **Overweight:** Industry performs better than that of the whole market;
- **Neutral:** Industry performs about the same as that of the whole market;
- **Underweight:** Industry performs worse than that of the whole market

### Company Investment Rating

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- **Buy:** With a markup more than 15% better than that of the market;
- **Outperform:** With a markup 5% to 15% better than that of the market;
- **Neutral:** With a markup less than 5% better or worse than that of the market;
- **Underperform:** With a markup more than 5% worse than that of the market.

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