

Geely Automobile (175 HK)

2H22E net profit to almost double HoH

Maintain BUY. We project Geely's net profit in 2H22E to rise 95% HoH to RMB 3.0bn. We estimate Geely's FY23E net profit to rise 21% YoY to RMB 5.5bn under our assumption of 1.53mn units (vs. the company's target of 1.65mn units). We also forecast Geely's new-energy vehicle's (NEV) sales volume to surge 74% YoY in FY23E, which could be a positive catalyst for its share price.

■ **We project Geely's 2H22E net profit to be RMB 3.0bn.** Geely ended FY22 with sales volume of 1.43mn units (0.98mn units for Geely, 0.15mn units for Geometry, 0.07mn units for Zeekr, 0.18mn units for Lynk & Co, and 0.06mn units for Livan). Total sales volume in 2H22 rose 17% YoY and 33% HoH to 0.82mn units. We expect 2H22E revenue to rise at a faster pace (40% HoH) amid higher average selling prices contributed by Zeekr and the "China Star" series under the Geely brand. We project Geely's gross margin to widen from 14.6% in 1H22 to 15.5% in 2H22E amid higher sales volume for all the brands. We forecast Geely's 2H22E net profit to rise 23% YoY and 95% HoH to RMB 3.0bn, assuming Zeekr's reporting under Geely still follows HKFRS (R&D capitalization is allowed), although it is seeking an IPO in the US.

■ **We expect Geely's NEV sales volume to surge 74% YoY and net profit to rise 21% YoY in FY23E.** Geely's total NEV sales volume quadrupled in FY22 to 0.32mn units, or 23% of total sales volume. We project its total NEV sales volume to surge 74% YoY to 0.57mn units (0.19mn units for PHEVs under Geely and Lynk & Co, 0.14mn units for Zeekr and 0.24mn units for Geometry and Livan) in FY23E, or 37% of our projected total sales volume of 1.53mn units. The automaker plans to roll out about 10 new models in FY23E, nine of which are NEVs. We estimate Geely's gross margin to widen 0.8 ppts YoY to 15.9% in FY23E amid greater economies of scale and possible raw material price drop. Accordingly, we project Geely's net profit to rise 21% YoY to RMB 5.5bn in FY23E, almost unchanged from our prior forecast.

■ **Valuation/Key risks.** We value Zeekr at 2.5x (unchanged) FY23E core revenue (excluding Viridi's battery pack sales and R&D services), which would result in HK\$ 109bn for 100% Zeekr's valuation. We value Geely's all other businesses excluding Zeekr at 15x (unchanged) of our FY23E P/E. We maintain our BUY rating and target price of HK\$ 16.50 (SOTP valuation with details in Figure 4). Key risks to our rating and target price include lower sales volume than we expect, especially NEVs.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	92,114	101,611	139,326	155,950	167,000
YoY growth (%)	(5.4)	10.3	37.1	11.9	7.1
Net income (RMB mn)	5,534	4,847	4,579	5,525	7,054
EPS (RMB)	0.56	0.48	0.44	0.54	0.68
YoY growth (%)	(32.4)	(12.4)	(5.5)	20.7	27.7
P/E (x)	19.4	22.1	26.2	21.5	16.9
P/B (x)	1.7	1.6	1.6	1.5	1.4
Yield (%)	1.2	0.8	1.1	1.3	1.7
ROE (%)	9.4	7.3	6.5	7.3	8.6
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$ 16.50
(Previous TP	HK\$ 16.50)
Up/Downside	+26.5%
Current Price	HK\$ 13.04

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Stock Data

Mkt Cap (HK\$ mn)	130,654
Avg 3 mths t/o (HK\$ mn)	886
52w High/Low (HK\$)	19.20/8.30
Total Issued Shares (mn)	10,019
Source: Bloomberg	

Shareholding Structure

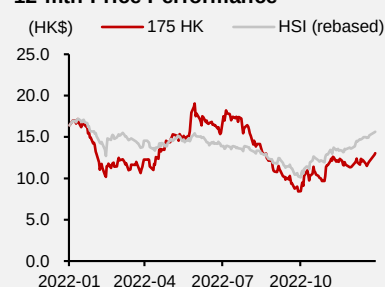
Li Shufu	43.2%
Others	56.8%
Source: HKEx	

Share Performance

	Absolute	Relative
1-mth	14.8%	0.8%
3-mth	44.7%	-2.3%
6-mth	-16.3%	-26.1%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Grant Thornton

Related Reports

["Geely Automobile – PHEV could be a positive surprise in FY23" – 6 Dec 2022](#)

Figure 1: Interim results

RMB mn	1H20	2H20	1H21	2H21	1H22	2H22E	YoY	HoH
Sales volume (units)	530,446	789,771	630,237	697,792	613,842	819,146	17.4%	33.4%
ASP (RMB)	70,888	74,870	75,258	80,835	87,673	89,162	10.3%	1.7%
Total revenue	36,820	55,294	45,032	56,579	58,184	81,143	43.4%	39.5%
Gross profit	6,302	8,435	7,759	9,653	8,476	12,593	30.5%	48.6%
Selling exp.	(2,190)	(2,864)	(2,554)	(3,769)	(3,304)	(4,508)	19.6%	36.4%
Admin exp.	(2,675)	(3,079)	(3,251)	(4,785)	(4,685)	(6,436)	34.5%	37.4%
Operating profit	2,108	2,861	2,754	1,638	1,384	2,354	43.7%	70.1%
Net profit	2,297	3,237	2,381	2,466	1,552	3,026	22.7%	95.0%
Gross margin	17.1%	15.3%	17.2%	17.1%	14.6%	15.5%	-1.5 ppt	1.0 ppt
Operating margin	5.7%	5.2%	6.1%	2.9%	2.4%	2.9%	0.0 ppt	0.5 ppt
Net margin	6.2%	5.9%	5.3%	4.4%	2.7%	3.7%	-0.6 ppt	1.1 ppt

Source: Company data, CMBIGM estimates

Figure 2: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	139,326	155,950	167,000	100,297	125,390	135,200	38.9%	24.4%	23.5%
Gross Profit	21,069	24,863	28,241	17,110	21,580	23,804	23.1%	15.2%	18.6%
Operating Profit	3,738	5,247	6,500	6,675	9,389	10,580	-44.0%	-44.1%	-38.6%
Net profit	4,579	5,525	7,054	5,875	8,789	11,237	-22.1%	-37.1%	-37.2%
Gross Margin	15.1%	15.9%	16.9%	17.1%	17.2%	17.6%	-1.9 ppt	-1.3 ppt	-0.7 ppt
Operating Margin	2.7%	3.4%	3.9%	6.7%	7.5%	7.8%	-4.0 ppt	-4.1 ppt	-3.9 ppt
Net Margin	3.3%	3.5%	4.2%	5.9%	7.0%	8.3%	-2.6 ppt	-3.5 ppt	-4.1 ppt

Source: Company data, CMBIGM estimates

Figure 3: CMBI estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	139,326	155,950	167,000	132,225	162,022	189,453	5.4%	-3.7%	-11.9%
Gross Profit	21,069	24,863	28,241	21,118	26,761	32,273	-0.2%	-7.1%	-12.5%
Operating Profit	3,738	5,247	6,500	4,178	6,482	9,044	-10.5%	-19.1%	-28.1%
Net profit	4,579	5,525	7,054	5,163	7,507	9,857	-11.3%	-26.4%	-28.4%
Gross Margin	15.1%	15.9%	16.9%	16.0%	16.5%	17.0%	-0.8 ppt	-0.6 ppt	-0.1 ppt
Operating Margin	2.7%	3.4%	3.9%	3.2%	4.0%	4.8%	-0.5 ppt	-0.6 ppt	-0.9 ppt
Net Margin	3.3%	3.5%	4.2%	3.9%	4.6%	5.2%	-0.6 ppt	-1.1 ppt	-1.0 ppt

Source: Bloomberg, CMBIGM estimates

Figure 4: Geely's SOTP valuation table

	FY23E (RMB bn)	Target P/E Multiple	Target P/S Multiple	Geely's Stake	Target Market Cap (HK\$ bn)	Target Price (HK\$)
Estimated Core Revenue of Zeekr	39	-	2.5x	58%	63	6.30
Estimated net profit for Geely's all other businesses	6	15x	-	-	102	10.20
SOTP					165	16.50

Source: CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	92,114	101,611	139,326	155,950	167,000
Cost of sales	(77,377)	(84,199)	(118,257)	(131,087)	(138,759)
Gross profit	14,737	17,412	21,069	24,863	28,241
Selling exp.	(5,053)	(6,323)	(7,811)	(8,576)	(9,199)
Admin exp.	(5,754)	(8,036)	(11,120)	(12,190)	(13,692)
Other income	1,039	1,339	1,600	1,150	1,150
Operating profit	4,969	4,393	3,738	5,247	6,500
Share-based payments	(4)	(1,213)	(1,500)	(1,000)	(600)
Net finance costs	208	280	354	271	401
Profit share of asso.&JVs	875	1,205	1,130	1,185	1,558
Other non-oper exp.	392	-	-	-	-
Pre-tax profit	6,441	4,665	3,722	5,704	7,859
Tax	(866)	(312)	(156)	(542)	(819)
Minority interests	(41)	494	1,012	364	14
Net profit	5,534	4,847	4,579	5,525	7,054

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Profit before taxation	6,441	4,665	3,722	5,704	7,859
Depreciation/amortization	5,491	6,893	8,645	9,675	10,881
Change in working capital	(8,947)	3,964	(5,605)	634	(450)
Others	(1,389)	(174)	15	(456)	(1,359)
Net cash from operating	1,597	15,348	6,778	15,557	16,931
Capex	(7,042)	(6,100)	(9,192)	(9,838)	(9,204)
Others	1,612	(1,059)	(1,076)	1,398	1,628
Net cash from investing	(5,430)	(7,159)	(10,268)	(8,441)	(7,576)
Share issuance	6,13	31	10	-	2,50
Dividend paid	(2,121)	(1,677)	(1,598)	(1,566)	(1,932)
Others	(253)	2,562	1,565	(516)	(566)
Net cash from financing	3,761	916	(23)	(2,082)	2
Net change in cash	(72)	9,105	(3,514)	5,034	9,357
Cash at beginning of the year	19,281	18,977	28,014	24,500	29,535
Exchange difference	(232)	(68)	-	-	-
Cash at the end of the year	18,977	28,014	24,500	29,535	38,891

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Current assets	50,935	65,296	73,246	83,983	97,074
Cash & equivalents	18,977	28,014	24,500	29,535	38,891
Account receivables	27,868	31,549	40,729	45,589	48,819
Inventories	3,691	5,522	7,776	8,619	9,124
Other current assets	399	211	240	240	240
Non-current assets	59,881	69,046	72,992	73,771	72,982
PP&E	26,574	30,859	30,701	29,762	28,162
Intangibles	18,653	20,959	21,493	22,522	22,372
Deferred income tax	970	2,435	2,435	2,435	2,435
Other non-current assets	13,684	14,793	18,363	19,051	20,013
Total assets	110,816	134,341	146,238	157,754	170,056
Current liabilities	41,887	60,351	64,878	71,802	75,943
Bank borrowings	-	1,907	-	-	-
Account payables	41,516	57,393	63,826	70,751	74,892
Tax payable	340	853	853	853	853
Other current liabilities	30	198	198	198	198
Non-current liabilities	4,716	3,770	7,780	7,886	7,949
Bank borrowings	1,960	-	4,000	4,000	4,000
Long-term payables	2,335	2,863	2,873	2,979	3,042
Other non-current liabilities	421	907	907	907	907
Total liabilities	46,602	64,120	72,658	79,688	83,891
Share capital	180	183	183	183	185
Reserves	60,038	65,010	69,280	74,093	82,202
Non-controlling interests	582	1,615	704	377	365
Shareholders' equity	63,631	68,606	72,876	77,689	85,800
Total equity and liabilities	110,816	134,341	146,238	157,754	170,056

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
Automobile	91.0	84.8	70.5	61.3	59.7
Auto parts	7.6	8.7	7.4	8.2	8.4
IP licensing & R&D support	1.4	6.6	22.1	30.4	31.9
Growth (%)					
Revenue	(5.4)	10.3	38.9	11.7	5.9
Gross profit	(12.9)	18.2	25.3	15.1	12.5
Operating profit	(42.8)	(11.6)	0.3	23.7	18.9
Net profit	(32.4)	(12.4)	0.9	14.8	25.5
Profit & loss ratio (%)					
Gross margin	16.0	17.1	15.4	15.9	16.9
Operating margin	5.4	4.3	3.1	3.5	3.9
Net profit margin	6.0	4.8	3.5	3.6	4.2
Balance sheet ratio					
Net cash/total equity (x)	0.2	0.3	0.3	0.3	0.4
Current ratio (x)	1.2	1.1	1.1	1.2	1.3
Receivable turnover days	115	117	110	110	110
Inventory turnover days	17	24	24	24	24
Payable turnover days	198	254	200	200	200
Profitability (%)					
ROE	9.4	7.3	6.9	7.4	8.6
ROA	5.1	4.0	3.5	3.7	4.3
Per share data (RMB)					
EPS	0.56	0.48	0.47	0.55	0.68
DPS	0.17	0.17	0.17	0.20	0.24

Source: Company data, CMBIGM estimates

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