

Geely Automobile (175 HK)

Solid 1H24 earnings, better NEV outlook

Maintain BUY. Geely's 1H24 core earnings beat our prior forecast by 18% even with a lower R&D capitalization ratio. We are of the view that the *Galaxy E5* BEV based on the GEA platform could be a sales volume driver with better margins than previous Galaxy models. Zeekr's plan to roll out hybrid models could also make it more competitive. We also think Geely's current valuation is attractive.

■ **1H24 earnings beat with solid earnings quality.** Geely's 1H24 revenue was 2% lower than our prior forecast, as ASP for the Geely brand fell 2% QoQ in 2Q24 and revenue from Viridi was below our expectation. Gross margin in 1H24 widened to 15.1%, or 1ppt higher than our estimates, as it benefited from supply chain price cuts. SG&A expenses were largely in line with our expectation, while share-based payment due to Zeekr's IPO (about RMB0.9bn) and gains from the formation of the Horse Powertrain joint venture (RMB7.5bn) were not included in our prior forecast. Geely's 1H24 net profit excluding both items was about RMB4bn, 18% higher than our forecast. Such beat was based on a lower capitalization rate for its R&D.

■ **Galaxy E5, Zeekr hybrid technology offer better NEV sales and margin outlook.** We estimate that the current order backlog for the *Galaxy E5* BEV could exceed 25,000 units, aided by its competitive pricing. We believe its GEA platform could lower costs for NEVs quite significantly. More importantly, this could lay a solid foundation for the Geely BEV brand image. We raise our FY24E sales volume forecast from 1.98mn units to 2.01mn units. Moreover, Zeekr plans to introduce hybrid powertrain in its large-size SUV in 4Q25, which could make Zeekr more competitive in big-size premium vehicle segment, in our view.

We project Geely's 2H24E net profit to be RMB4.1bn amid 12% HoH revenue growth and slight gross margin expansion. We also raise our FY25E net profit by 12% to RMB8.7bn given continuous profit improvement in its NEVs.

■ **Valuation/Key risks.** We value Zeekr at 0.7x (prior 1.0x FY24E) our revised FY25E core revenue (excluding Viridi's revenue and R&D services), which implies US\$8.4bn for Zeekr's valuation. We value Geely's all other businesses excluding Zeekr at 12x (prior 13x FY24E) FY25E P/E (details in Figure 4). We maintain our BUY rating and target price of HK\$14.00. Key risks to our rating and target price include lower sales volume and GPM, especially for NEVs, than we expect and a sector de-rating.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	147,965	179,204	227,641	248,810	266,920
YoY growth (%)	45.6	21.1	27.0	9.3	7.3
Net profit (RMB mn)	5,260.4	5,308.4	14,688.3	8,704.5	9,462.9
YoY growth (%)	8.5	0.9	176.7	(40.7)	8.7
EPS (Reported) (RMB)	0.52	0.53	1.46	0.86	0.92
P/E (x)	13.8	13.7	5.0	8.4	7.8
P/B (x)	1.0	0.9	0.8	0.7	0.7
Yield (%)	2.6	2.8	3.6	4.3	4.6
ROE (%)	7.3	6.8	16.7	8.8	8.9
Net gearing (%)	(33.2)	(38.8)	(53.8)	(57.9)	(59.1)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$14.00
Up/Downside	77.7%
Current Price	HK\$7.88

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Stock Data

Mkt Cap (HK\$ mn)	79,299.5
Avg 3 mths t/o (HK\$ mn)	297.1
52w High/Low (HK\$)	10.64/7.34
Total Issued Shares (mn)	10063.4

Source: FactSet

Shareholding Structure

Mr. Li Shufu	41.2%
Others	58.8%

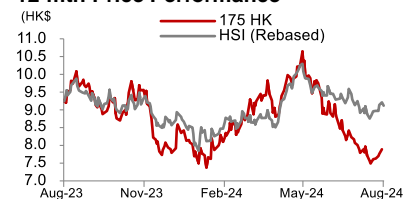
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-2.4%	-2.2%
3-mth	-23.0%	-15.0%
6-mth	-4.1%	-9.0%

Source: FactSet

12-mth Price Performance



Source: FactSet

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Figure 1: Interim results

RMB mn	1H22	2H22	1H23	2H23	1H24	YoY	HoH
Sales volume (units)	613,842	819,146	694,045	992,471	955,730	37.7%	-3.7%
Total revenue	58,184	89,781	73,182	106,022	107,305	46.6%	1.2%
Gross profit	8,476	12,420	10,540	16,875	16,221	53.9%	-3.9%
Selling exp.	(3,304)	(4,924)	(4,768)	(7,064)	(6,327)	32.7%	-10.4%
Admin exp.	(4,685)	(5,750)	(4,808)	(7,690)	(7,194)	49.6%	-6.4%
Operating profit	1,384	2,006	1,605	2,848	3,576	122.8%	25.6%
Net profit	1,552	3,708	1,571	3,738	10,598	574.7%	183.5%
Gross margin	14.6%	13.8%	14.4%	15.9%	15.1%	0.7 ppt	-0.8 ppt
Operating margin	2.4%	2.2%	2.2%	2.7%	3.3%	1.1 ppt	0.6 ppt
Net margin	2.7%	4.1%	2.1%	3.5%	9.9%	7.7 ppt	6.4 ppt

Source: Company data, CMBIGM

Figure 2: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	227,641	248,810	266,920	227,474	240,150	255,120	0.1%	3.6%	4.6%
Gross profit	34,851	37,821	40,845	33,668	35,116	38,064	3.5%	7.7%	7.3%
Operating profit	7,245	7,486	8,218	5,619	6,065	7,248	28.9%	23.4%	13.4%
Net profit	14,688	8,705	9,463	7,046	7,742	8,826	108.5%	12.4%	7.2%
Gross margin	15.3%	15.2%	15.3%	14.8%	14.6%	14.9%	0.5 ppt	0.6 ppt	0.4 ppt
Operating margin	3.2%	3.0%	3.1%	2.5%	2.5%	2.8%	0.7 ppt	0.5 ppt	0.2 ppt
Net margin	6.5%	3.5%	3.5%	3.1%	3.2%	3.5%	3.4 ppt	0.3 ppt	0.1 ppt

Source: CMBIGM estimates

Figure 3: CMBI estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	227,641	248,810	266,920	220,504	254,376	278,682	3.2%	-2.2%	-4.2%
Gross profit	34,851	37,821	40,845	33,777	39,965	45,046	3.2%	-5.4%	-9.3%
Operating profit	7,245	7,486	8,218	5,828	7,704	9,729	24.3%	-2.8%	-15.5%
Net profit	14,688	8,705	9,463	7,407	9,438	11,493	98.3%	-7.8%	-17.7%
Gross margin	15.3%	15.2%	15.3%	15.3%	15.7%	16.2%	0.0 ppt	-0.5 ppt	-0.9 ppt
Operating margin	3.2%	3.0%	3.1%	2.6%	3.0%	3.5%	0.5 ppt	0.0 ppt	-0.4 ppt
Net margin	6.5%	3.5%	3.5%	3.4%	3.7%	4.1%	3.1 ppt	-0.2 ppt	-0.6 ppt

Source: Bloomberg, CMBIGM estimates

Figure 4: Geely's SOTP valuation table

	FY25E (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	81	-	0.7x	54%	35	3.50
Estimated net profit for Geely's all other businesses	8	12x	-	-	106	10.50
SOTP					141	14.00

Source: CMBIGM estimates

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	101,611	147,965	179,204	227,641	248,810	266,920
Cost of goods sold	(84,199)	(127,069)	(151,789)	(192,790)	(210,989)	(226,075)
Gross profit	17,412	20,896	27,415	34,851	37,821	40,845
Operating expenses	(13,020)	(17,506)	(22,962)	(27,606)	(30,335)	(32,627)
Selling expense	(6,323)	(8,228)	(11,832)	(13,747)	(15,094)	(15,838)
Admin expense	(8,036)	(10,435)	(12,497)	(15,648)	(17,150)	(18,856)
Others	1,339	1,157	1,367	1,790	1,909	2,067
Operating profit	4,393	3,389	4,453	7,245	7,486	8,218
Other expense	(1,213)	(1,489)	(646)	(1,888)	(627)	(395)
Other gains/(losses)	0	1,750	0	7,470	0	0
Share of (losses)/profits of associates/JV	1,205	651	599	1,514	1,761	2,122
EBITDA	11,823	13,551	13,570	23,727	19,534	22,316
Depreciation	6,893	8,318	8,203	8,176	9,401	10,685
EBIT	4,930	5,233	5,367	15,551	10,133	11,631
Interest income	545	931	961	1,210	1,513	1,685
Interest expense	(265)	(551)	(417)	(342)	(368)	(368)
Net interest income/(expense)	280	380	544	868	1,146	1,317
Foreign exchange gain/loss	125	(79)	(126)	(50)	0	0
Pre-tax profit	4,665	4,682	4,950	15,209	9,765	11,263
Income tax	(312)	(32)	(15)	(753)	(560)	(823)
After tax profit	4,353	4,650	4,935	14,456	9,205	10,440
Minority interest	494	611	373	233	(501)	(977)
Net profit	4,847	5,260	5,308	14,688	8,705	9,463
Gross dividends	1,788	1,916	2,033	2,599	3,134	3,407

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	65,296	79,064	113,635	127,373	141,630	152,715
Cash & equivalents	28,014	33,341	35,746	55,477	63,707	69,223
Restricted cash	4	387	943	943	943	943
Account receivables	31,549	34,392	42,711	53,885	58,896	63,183
Inventories	5,522	10,822	15,422	16,902	17,920	19,201
Prepayment	0	0	0	0	0	0
Other current assets	207	121	18,813	164	164	164
Non-current assets	69,046	78,762	78,963	98,735	105,875	112,167
PP&E	30,859	32,201	27,351	26,901	25,750	24,345
Right-of-use assets	3,436	3,402	3,600	3,551	3,512	3,475
Deferred income tax	2,435	4,573	6,342	6,342	6,342	6,342
Investment in JVs & assos	10,205	14,235	15,703	28,455	30,540	32,919
Intangibles	20,901	22,548	23,920	31,089	37,124	42,301
Goodwill	58	61	34	34	34	34
Financial assets at FVTPL	352	0	0	0	0	0
Other non-current assets	801	1,742	2,013	2,363	2,572	2,750
Total assets	134,341	157,826	192,598	226,108	247,505	264,882
Current liabilities	60,351	68,953	96,824	111,695	124,897	133,717
Short-term borrowings	1,907	0	0	0	0	0
Account payables	57,393	65,481	87,398	110,154	123,356	132,176
Tax payable	853	773	774	774	774	774
Other current liabilities	0	2,143	7,898	13	13	13
Lease liabilities	198	557	754	754	754	754
Non-current liabilities	3,770	12,677	10,622	10,807	11,216	11,489
Long-term borrowings	0	2,758	2,840	2,340	2,340	2,340
Bond payables	1,901	6,000	2,600	2,600	2,600	2,600
Convertible bonds	0	0	0	0	0	0
Other non-current liabilities	1,869	3,919	5,182	5,867	6,275	6,548
Total liabilities	64,120	81,631	107,446	122,502	136,113	145,206
Share capital	183	184	184	185	187	188
Other reserves	68,423	74,947	80,325	95,540	102,855	110,190
Total shareholders equity	68,606	75,130	80,509	95,725	103,042	110,378
Minority interest	1,615	1,065	4,643	7,880	8,351	9,298
Total equity and liabilities	134,341	157,826	192,598	226,108	247,505	264,882

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	4,665	4,682	4,950	15,209	9,765	11,263
Depreciation & amortization	6,893	8,318	8,203	8,176	9,401	10,685
Tax paid	(1,197)	(2,082)	(2,307)	(753)	(560)	(823)
Change in working capital	5,161	5,672	11,238	10,437	7,373	3,346
Others	(174)	(571)	259	(296)	(2,066)	(2,818)
Net cash from operations	15,348	16,018	22,342	32,773	23,913	21,654
Investing						
Capital expenditure	(6,100)	(10,337)	(15,322)	(14,535)	(14,371)	(14,634)
Acquisition of subsidiaries/ investments	(2,609)	(2,831)	(1,570)	(1,000)	(1,000)	(1,000)
Net proceeds from disposal of short-term investments	(323)	0	0	0	0	0
Others	1,873	1,037	748	1,855	2,310	2,548
Net cash from investing	(7,159)	(12,130)	(16,145)	(13,680)	(13,061)	(13,086)
Financing						
Dividend paid	(1,611)	(1,788)	(1,916)	(2,033)	(2,599)	(3,134)
Net borrowings	0	4,603	(6,306)	(1,000)	0	0
Proceeds from share issues	0	0	0	0	0	0
Others	2,527	(1,490)	5,458	3,672	(24)	83
Net cash from financing	916	1,325	(2,764)	639	(2,622)	(3,051)
Net change in cash						
Cash at the beginning of the year	18,977	28,014	33,341	35,746	55,477	63,707
Exchange difference	(68)	114	(1,029)	0	0	0
Cash at the end of the year	28,014	33,341	35,746	55,477	63,707	69,223
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	10.3%	45.6%	21.1%	27.0%	9.3%	7.3%
Gross profit	18.2%	20.0%	31.2%	27.1%	8.5%	8.0%
Operating profit	(11.6%)	(22.8%)	31.4%	62.7%	3.3%	9.8%
EBITDA	(2.3%)	14.6%	0.1%	74.9%	(17.7%)	14.2%
EBIT	(25.4%)	6.1%	2.6%	189.8%	(34.8%)	14.8%
Net profit	(12.4%)	8.5%	0.9%	176.7%	(40.7%)	8.7%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	17.1%	14.1%	15.3%	15.3%	15.2%	15.3%
Operating margin	4.3%	2.3%	2.5%	3.2%	3.0%	3.1%
EBITDA margin	11.6%	9.2%	7.6%	10.4%	7.9%	8.4%
Return on equity (ROE)	7.3%	7.3%	6.8%	16.7%	8.8%	8.9%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	(0.4)	(0.3)	(0.4)	(0.5)	(0.6)	(0.6)
Current ratio (x)	1.1	1.1	1.2	1.1	1.1	1.1
Receivable turnover days	116.5	88.7	91.1	90.0	90.0	90.0
Inventory turnover days	24.0	31.2	37.2	32.0	31.0	31.0
Payable turnover days	253.7	193.2	217.3	215.0	220.0	220.0
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	14.6	13.8	13.7	5.0	8.4	7.8
P/E (diluted)	14.7	13.9	13.8	5.0	8.5	7.9
P/B	1.0	1.0	0.9	0.8	0.7	0.7
P/CFPS	4.6	4.5	3.3	2.2	3.1	3.4
Div yield (%)	2.5	2.6	2.8	3.6	4.3	4.6

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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