

GAC Group (2238 HK)

The worst appears to be over for local brands

We maintain our BUY rating and raise our target price to HK\$ 12.00 from HK\$ 10.50 for Guangzhou Automobile Group (GAC), as we think that the worst is over for its homegrown brands especially with its current sales volume growth and gross margin improvement in FY21. We raise our sales volume projection for Aion by 35% and net profit for GAC Toyota joint venture by 7% in FY22E. We also project net profit for GAC to be around RMB 2.8bn in 1Q22E and RMB 8.8bn in FY22E.

- 1Q22 earnings preview.** We expect GAC's 1Q22E net profit to rise by 20% YoY to about RMB 2.8bn amid strong sales volume growth. We project equity income from joint ventures and associates to rise by 17% YoY to about RMB 3.9bn. Net loss for Trumpchi and Aion could be dragged down by raw-material price hikes in 1Q22E.
- The worst appears to be over for homegrown brands.** Both sales volume and gross margin for Trumpchi and Aion experienced a recovery in FY21. Despite headwinds in the supply chain industrywide, it appears to us that the worst is over for GAC's homegrown brands. We expect sales volume for Trumpchi and Aion combined to rise 37% YoY to 0.61mn units and gross margin to widen by 3 ppts in FY22E.
- GAC Toyota's strong cycle continues; GAC FCA's loss may narrow on Stellantis' (STLA US, NR) intention to lift stake.** Share of profit at GAC Toyota surged 31% YoY amid sales volume growth of 8% YoY in FY21. We expect its sales volume growth to accelerate in FY22E with a plethora of new models, which could further lift its net profit. We are of the view that share of loss from GAC FCA could narrow in FY22E or FY23E, should Stellantis lift its stake at the joint venture.
- Valuation/Key risks.** We use sum-of-the-parts (SOTP) valuation to factor in Aion's planned spin-off. We value HK\$ 6.0 per share for 75% of Aion based on 2.5x our revised FY22E P/S, HK\$ 6.0 per share for JVs and associates based on 4.0x our revised FY22E P/E. We value 0 for Trumpchi. Accordingly, we maintain our BUY rating and raise our target price to HK\$12.00 from HK\$10.50. Key risks to our rating and target price include lower sales volume and margins at GAC especially for Aion and slower spin-off progress than we expect, as well as a sector de-rating.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	63,157	75,676	98,912	116,448	118,422
YoY growth (%)	5.8	19.8	30.7	17.7	1.7
Net income (RMB mn)	5,964	7,511	8,827	10,514	11,759
EPS (RMB)	0.58	0.73	0.85	1.00	1.12
YoY growth (%)	(9.9)	25.9	17.5	19.1	11.8
P/E (x)	9.5	7.0	6.0	5.0	4.5
P/B (x)	0.6	0.6	0.5	0.5	0.5
Yield (%)	2.7	3.6	3.1	3.7	4.1
ROE (%)	7.2	8.6	9.3	10.1	10.5
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimate

BUY (Maintain)

Target Price	HK\$ 12.00
(Previous TP)	HK\$ 10.50)
Up/Downside	+92.9%
Current Price	HK\$ 6.22

China Auto Sector

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Stock Data

Mkt Cap (HK\$ mn)	65,086
Avg 3 mths t/o (HK\$ mn)	155
52w High/Low (HK\$)	9.25/5.50
Total Issued Shares (mn)	10,464
Source: Bloomberg	

Shareholding Structure

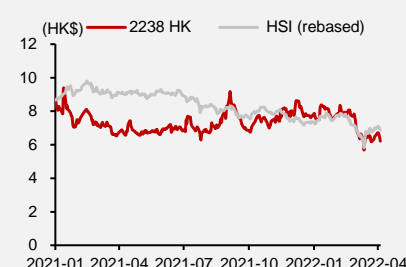
Guangzhou Automobile	53.1%
Industry	
Others	46.9%
Source: HKEx	

Share Performance

	Absolute	Relative
1-mth	-4.9%	-9.9%
3-mth	-17.0%	-9.8%
6-mth	-12.5%	-0.3%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PricewaterhouseCoopers

Related Reports

"GAC Group – Ride on Aion spin-off and JV cash cow" – 13 Jan 2022

Figure 1: Quarterly results (based on PRC GAAP)

RMB mn	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	YoY	QoQ
Sales volume (units)	150,332	249,445	285,593	430,908	325,798	288,591	265,834	396,948	-7.9%	49.3%
ASP (RMB)	82,363	94,399	91,789	95,529	95,510	106,765	108,597	114,895	20.3%	5.8%
Revenue	12,416	23,513	26,214	41,164	31,117	30,811	28,869	45,607	10.8%	58.0%
Gross profit	1,190	4,098	4,972	7,517	4,707	5,357	4,995	6,979	-7.2%	39.7%
R&D expenses	(611)	(609)	(675)	(1,172)	(908)	(950)	(999)	(1,633)	39.3%	63.5%
SG&A expenses	(1,488)	(1,751)	(2,456)	(4,029)	(2,715)	(2,928)	(3,535)	(4,547)	12.8%	28.6%
Operating profit	(829)	1,989	1,717	2,874	1,864	1,995	1,420	1,090	-62.1%	-23.2%
Net profit	(650)	1,796	1,441	2,775	1,639	1,889	1,416	1,780	-35.9%	25.7%
Gross margin	9.6%	17.4%	19.0%	18.3%	15.1%	17.4%	17.3%	15.3%	-3.0 ppt	-2.0 ppt
Operating margin	-6.7%	8.5%	6.6%	7.0%	6.0%	6.5%	4.9%	2.4%	-4.6 ppt	-2.5 ppt
Net margin	-5.2%	7.6%	5.5%	6.7%	5.3%	6.1%	4.9%	3.9%	-2.8 ppt	-1.0 ppt

Source: Company data, CMBIGM

Figure 2: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	98,912	116,448	118,422	87,501	97,887	N/A	13.0%	19.0%	N/A
Gross Profit	6,516	9,784	10,616	6,786	8,310	N/A	-4.0%	17.7%	N/A
Operating Profit	(3,606)	(2,633)	(2,614)	(3,085)	(2,781)	N/A	N/A	N/A	N/A
Net profit	8,827	10,514	11,759	9,090	10,052	N/A	-2.9%	4.6%	N/A
Gross Margin	6.6%	8.4%	9.0%	7.8%	8.5%	N/A	-1.2 ppt	-0.1 ppt	N/A
Operating Margin	-3.6%	-2.3%	-2.2%	-3.5%	-2.8%	N/A	-0.1 ppt	0.6 ppt	N/A
Net Margin	8.9%	9.0%	9.9%	10.4%	10.3%	N/A	-1.5 ppt	-1.2 ppt	N/A

Source: CMBIGM estimates

Figure 3: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	98,912	116,448	118,422	88,190	100,028	126,117	12.2%	16.4%	-6.1%
Gross Profit	6,516	9,784	10,616	7,080	8,983	11,955	-8.0%	8.9%	-11.2%
Operating Profit	(3,606)	(2,633)	(2,614)	(376)	47	(117)	N/A	N/A	N/A
Net profit	8,827	10,514	11,759	9,477	11,186	13,152	-6.9%	-6.0%	-10.6%
Gross Margin	6.6%	8.4%	9.0%	8.0%	9.0%	9.5%	-1.4 ppt	-0.6 ppt	-0.5 ppt
Operating Margin	-3.6%	-2.3%	-2.2%	-0.4%	0.0%	-0.1%	-3.2 ppt	-2.3 ppt	-2.1 ppt
Net Margin	8.9%	9.0%	9.9%	10.7%	11.2%	10.4%	-1.8 ppt	-2.2 ppt	-0.5 ppt

Source: Bloomberg, CMBIGM estimates

Figure 4: SOTP valuation

GAC (2238 HK)	FY22E (RMB mn)	Target P/E Multiple	Target P/S Multiple	Est. Shareholding	Target Market Cap (RMB mn)	Target Price (HK\$)
Estimated Share of Profits of Joint Ventures & Associates	12,823	4.0x	-	-	51,292	6.00
Estimated NEV Revenue	26,705	-	2.5x	75%	50,072	6.00
SOTP					101,364	12.00

Source: CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	63,157	75,676	98,912	116,448	118,422
Cost of sales	(60,861)	(71,777)	(92,397)	(106,663)	(107,806)
Gross profit	2,296	3,899	6,516	9,784	10,616
Selling exp.	(3,641)	(4,340)	(5,187)	(6,089)	(6,786)
Admin exp.	(3,850)	(4,556)	(6,190)	(7,584)	(7,700)
Other gains	1,629	1,371	1,255	1,255	1,255
Operating profit	(3,567)	(3,626)	(3,606)	(2,633)	(2,614)
Net finance costs	(312)	(367)	(413)	(273)	(181)
Profit share of asso.&JVs	9,571	11,404	12,823	13,433	14,596
Pre-tax profit	5,692	7,412	8,804	10,527	11,801
Tax	356	154	121	58	28
Minority interests	(84)	(55)	(97)	(71)	(69)
Net profit	5,964	7,511	8,827	10,514	11,759

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Profit before taxation	5,692	7,412	8,804	10,527	11,801
Depreciation/amortization	5,110	5,719	6,644	7,516	8,449
Change in working capital	(4,168)	(5,784)	2,450	(1,922)	(2,946)
Others	(10,305)	(11,221)	(11,601)	(12,339)	(13,495)
Net cash from operating	(3,671)	(5,589)	6,297	3,782	3,809
Capex	(6,586)	(6,243)	(8,100)	(9,100)	(9,200)
Others	3,647	7,308	10,692	12,736	12,631
Net cash from investing	(2,938)	1,065	2,592	3,636	3,431
Net borrowings	1,105	(657)	(2,661)	(2,216)	(1,555)
Dividend paid	(1,936)	(2,135)	(2,551)	(2,935)	(3,417)
Others	(347)	8,760	(243)	(266)	(259)
Net cash from financing	(1,178)	5,968	(5,454)	(5,417)	(5,231)
Net change in cash	(7,787)	1,444	3,434	2,001	2,009
Cash at beginning of the year	23,605	15,791	17,235	20,669	22,670
Exchange difference	(27)	-	-	-	-
Cash at the end of the year	15,791	17,235	20,669	22,670	24,679

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Current assets	56,643	61,192	74,050	84,017	87,784
Cash & equivalents	15,791	17,235	20,669	22,670	24,679
Account receivables	19,616	25,110	32,519	38,922	40,555
Inventories	6,622	8,111	10,126	11,689	11,814
Other current assets	14,614	10,736	10,736	10,736	10,736
Non-current assets	86,218	93,059	96,569	98,646	101,016
PP&E	20,073	19,476	18,761	17,736	16,558
Intangibles	12,259	13,581	15,264	17,360	18,687
Deferred income tax	2,124	2,834	2,834	2,834	2,834
Other non-current assets	51,762	57,168	59,710	60,716	62,937
Total assets	142,861	154,251	170,619	182,664	188,801
Current liabilities	42,543	49,133	59,074	63,461	60,499
Bank borrowings	6,504	9,889	7,675	5,688	3,574
Account payables	35,464	38,490	50,628	56,984	56,118
Tax payable	103	202	202	202	202
Other current liabilities	472	551	569	586	604
Non-current liabilities	13,604	12,469	9,880	8,887	8,916
Bank borrowings	8,473	7,527	4,927	3,927	3,927
Government Grants	2,556	2,196	2,066	1,956	1,863
Other non-current liabilities	2,575	2,747	2,887	3,004	3,127
Total liabilities	56,147	61,602	68,954	72,348	69,415
Share capital	10,350	10,371	10,371	10,452	10,514
Reserves	74,025	79,943	88,950	97,511	106,513
Non-controlling interests	2,339	2,335	2,345	2,352	2,359
Shareholders' equity	84,375	90,313	99,320	107,964	117,027
Total equity and liabilities	142,861	154,251	170,619	182,664	188,801

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
Automobile	60.1	65.0	69.7	71.5	71.1
Parts and services	35.9	32.1	28.0	26.5	26.8
Finance and others	4.0	2.9	2.3	2.0	2.1
Growth (%)					
Revenue	5.8	19.8	30.7	17.7	1.7
Gross profit	(9.0)	69.8	67.1	50.2	8.5
Operating profit	29.1	1.6	(0.5)	(27.0)	(0.7)
Net profit	(9.9)	25.9	17.5	19.1	11.8
Profit & loss ratio (%)					
Gross margin	3.6	5.2	6.6	8.4	9.0
Operating margin	(5.6)	(4.8)	(3.6)	(2.3)	(2.2)
Net profit margin	9.4	9.9	8.9	9.0	9.9
Balance sheet ratio					
Net cash/total equity (x)	0.1	0.1	0.1	0.2	0.2
Current ratio (x)	1.3	1.2	1.3	1.3	1.5
Receivable turnover days	113	121	120	122	125
Inventory turnover days	40	41	40	40	40
Payable turnover days	213	196	200	195	190
Profitability (%)					
ROE	7.2	8.6	9.3	10.1	10.5
ROA	4.3	5.1	5.4	6.0	6.3
Per share data (RMB)					
EPS	0.58	0.73	0.85	1.00	1.12
DPS	0.18	0.22	0.26	0.31	0.35

Source: Company data, CMBIGM estimates

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NOT RATED : Stock is not rated by CMBIGM

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