

GAC Group (2238 HK)

1Q22 earnings beat on joint ventures

We are of the view that our FY22E net profit estimates of RMB 8.8bn is on track with 1Q22 results beat, solid demand for Aion and strong earnings from GAC Toyota and GAC Honda. We maintain BUY rating and our target price.

- 1Q22 earnings review.** GAC's 1Q22 net profit of RMB 3.0bn was 6% higher than our prior estimates in our report published on 8 Apr 2022. The positive surprise mainly came from equity income from joint ventures (JVs) and associates, or more specifically from GAC Toyota and GAC Honda. GAC's gross margin, which reflects the profitability for Trumpchi and Aion, was 1.9 pts lower than our expectation. SG&A expenses were lower than our estimates.
 - 2Q22 and FY22 outlook.** According to management during the earnings call, Aion currently has orders backlog of almost 70,000 units, about 20,000 of which came from this month, showcasing its resilient demand. We estimate Aion starts to deliver vehicles with higher prices in Jun 2022, as it raised prices twice (at the beginning of Mar and Apr 2022, respectively), should the supply chain recovery be on track. Therefore, we expect slightly higher average selling prices for 2Q22E but similar gross margin amid rising battery costs.
- We are of the view that our FY22E net profit estimates of RMB 8.8bn is on track with 1Q22 results, solid demand for Aion and strong earnings from GAC Toyota and GAC Honda. Therefore, we maintain our earnings forecasts during FY22-24E.
- Stimulus measures in Guangdong province to benefit GAC's sales.** We are of the view that GAC should be one of the automakers that could benefit the most from the recent stimulus measures in Guangdong. Retail sales volumes in Guangdong province in 1Q22 accounted for 46%/21%/20%/21% for Aion/Trumpchi/GAC Honda/GAC Toyota.
 - 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 FY22E P/S, HK\$ 6.0 per share for JVs and associates based on 4.0x our FY22E P/E. We value 0 for Trumpchi. Accordingly, we maintain our BUY rating and our target price of HK\$ 12.00. 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)	10.1	7.5	6.3	5.3	4.8
P/B (x)	0.7	0.6	0.6	0.5	0.5
Yield (%)	2.7	3.6	2.7	3.2	3.6
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**
 Up/Downside **+82.1%**
 Current Price **HK\$ 6.59**

China Auto Sector

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Stock Data

Mkt Cap (HK\$ mn)	65,295
Avg 3 mths t/o (HK\$ mn)	156
52w High/Low (HK\$)	9.25/5.50
Total Issued Shares (mn)	10,464
Source: Bloomberg	

Shareholding Structure

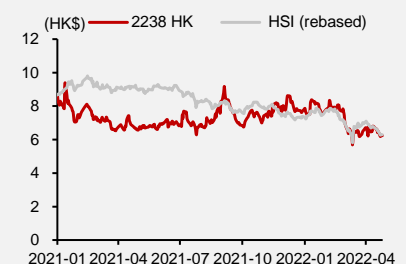
Guangzhou Automobile	53.1%
Industry	
Others	46.9%
Source: HKEx	

Share Performance

	Absolute	Relative
1-mth	-1.6%	7.5%
3-mth	-17.5%	-2.2%
6-mth	-15.2%	6.2%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PricewaterhouseCoopers

Related Reports

"GAC Group – The worst appears to be over for local brands" – 8 Apr 2022

Figure 1: Quarterly results (based on PRC GAAP)

RMB mn	1Q21	2Q21	3Q21	4Q21	1Q22	YoY	QoQ
Sales volume (units)	496,560	529,945	467,221	650,661	608,167	22.5%	-6.5%
Revenue	16,024	18,548	20,941	20,163	23,268	45.2%	15.4%
Gross profit	600	1,030	1,327	1,631	1,025	70.7%	-37.2%
R&D expenses	(260)	(263)	(237)	(228)	(241)	-7.5%	5.6%
SG&A expenses	(1,518)	(2,154)	(2,185)	(2,417)	(2,110)	39.0%	-12.7%
Investment Income	3,443	3,060	1,781	3,530	4,227	22.8%	19.7%
Operating profit	2,279	1,937	978	1,951	2,854	25.2%	46.3%
Net profit	2,366	1,971	947	2,051	3,009	27.2%	46.7%
Gross margin	3.7%	5.6%	6.3%	8.1%	4.4%	0.7 ppt	-3.7 ppt
Operating margin	14.2%	10.4%	4.7%	9.7%	12.3%	-2.0 ppt	2.6 ppt
Net margin	14.8%	10.6%	4.5%	10.2%	12.9%	-1.8 ppt	2.8 ppt

Source: Company data, CMBIGM

Figure 2: 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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