

# China Auto Sector

Refer to important disclosures at the end of this report

DBS Group Research . Equity

19 Jan 2022

## NEV the bright spot

- **Domestic auto consumption is critical to support economy; expect auto sales to gain strength in 2022 and NEV segment remains the bright spot**
- **Sequential improvement in critical components supply and favourable support to drive vehicle market. Chinese OEMs accelerating NEV strategy to scale up sales**
- **Resilient demand of premium cars and margin expansion favourable on dealerships, especially in 1H22**
- **Top picks are [BYD \(1211 HK\)](#) and [Zhongsheng \(881 HK\)](#); NEV proxies worth considering – [Guangzhou Auto \(2238 HK\)](#) and [Geely \(175 HK\)](#)**

**Auto consumption to stabilise economy.** The Chinese auto sector is crucial to stabilise the economy and measures to stimulate car consumptions in 2022 are even more important. The mid-high-end car segment, which accounts for the bulk of total, was resilient at 2% growth in 2021. Semiconductor manufacturers are ramping up new capacity and supply of critical parts should support 2022 auto sales. The government is also rolling out measures to promote NEV sales to the lower-tier cities and waiver of NEV purchase tax. Besides, automakers' rich new model pipeline should also stimulate car sales. Hence, we estimate total vehicle sales to increase by 5.2% y-o-y in 2022 and the premium car to outshine at 12% expansion, supported by resilient demand and consumption upgrade. Zhongsheng is our top pick in the premium car space.

**Chinese automakers racing to invest in EV space.** Automakers are spending billions of dollars to speed up smart EV development in a comprehensive manner, covering both pure and hybrid technology as well as battery and auto chips production. While the NEV subsidy will be lowered by 20-30% this year and scheme will expire after Dec-22, the impact on the NEV market is expected to be mild, as consumers are less reliant on subsidy, as the amount of subsidy is small. The NEV market remains vibrant, and we project growth at c.35% p.a. during 2021-2025.

**Our picks.** The auto sector is trading at 9-13x FY22F PE. Sequential improvement in vehicle sales bodes well on sector valuation. We like the automakers especially those with strong NEV fundamentals. BYD is our top pick for its solid NEV strategy, earnings and share price upside potential. But the NEV proxies are also worth considering given their rapid NEV business expansions. GAC NEV sales doubled in 2021 and is expanding capacity to support new model production plans. GAC is trading at FY22F 7x PE. Geely is accelerating the autonomous NEV development through collaborations with industry players such as Waymo and Mobileye. The counter is trading at a 15x FY22F PE.

HSI: 24,113

## ANALYST

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### Recommendation & valuation

Company Name	Price HK\$	Target Price HK\$	Recom	Mkt Cap US\$m	PE 22F x
<b>Auto Parts</b>					
<a href="#">Mintch Group (425 HK)</a>	36.85	49.00	BUY	5,471	14.8
<a href="#">Nexteer (1316 HK)</a>	10.72	14.00	BUY	3,456	11.3
<b>Auto Dealers</b>					
<a href="#">China Yongda Auto (3669 HK)</a>	9.97	18.40	BUY	2,522	6.8
<a href="#">Zhongsheng (881 HK)</a>	61.10	86.00	BUY	18,955	12.1
<b>Auto Makers</b>					
<a href="#">BAIC Motor 'H' (1958 HK)</a>	3.23	3.00	HOLD	3,326	5.2
<a href="#">BYD 'H' (1211 HK)</a>	266.00	360.00	BUY	113,479	85.2
<a href="#">BYD 'A' (002594 CH)</a>	266.08	299.00	HOLD	113,479	104.4
<a href="#">Dongfeng Motor (489 HK)</a>	7.15	8.00	HOLD	7,914	3.8
<a href="#">Geely Auto (175 HK)</a>	19.24	29.00	BUY	24,765	15.0
<a href="#">Great Wall Motor Co.'H' (2333 HK)</a>	25.35	38.00	BUY	54,096	16.2
<a href="#">Great Wall Motor 'A' (601633 CH)</a>	45.84	49.00	HOLD	54,096	36.0
<a href="#">Guangzhou Auto 'H' (2238 HK)</a>	8.28	9.80	BUY	20,511	7.1
<a href="#">Guangzhou Auto 'A' (601238 CH)</a>	15.06	16.00	HOLD	20,511	15.9

Source: Thomson Reuters, DBS Bank (Hong Kong) Limited ("DBS HK")

Based on closing prices as at 18 Jan 2022



Live more, Bank less

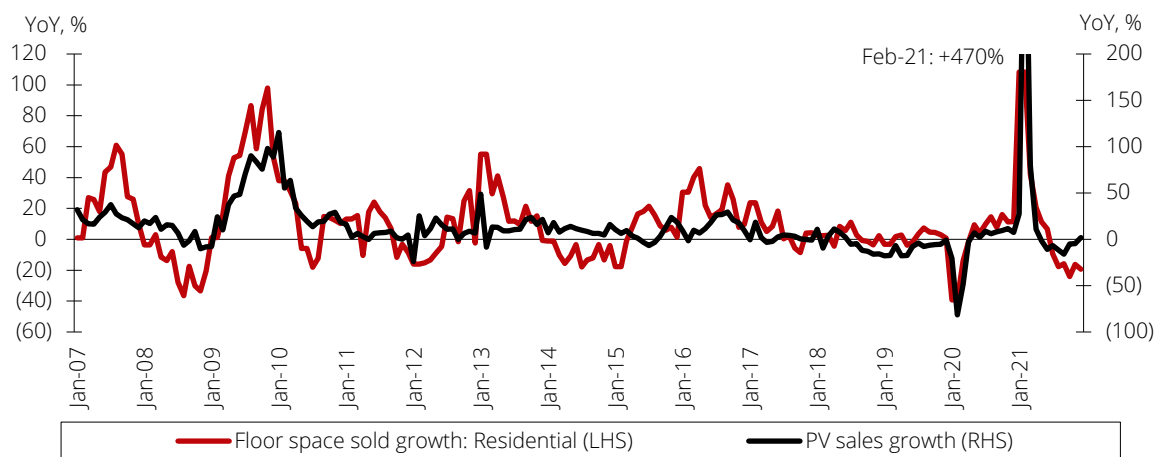
China Auto Sector

2022 outlook Overall vehicle market

Several factors had impacted the Chinese automobile market in 2021. But the sector still managed to post growth despite the headwinds. We believe the worst could be behind and anticipate vehicle sales to improvement in 2022, especially in 2H22 given the base effect.

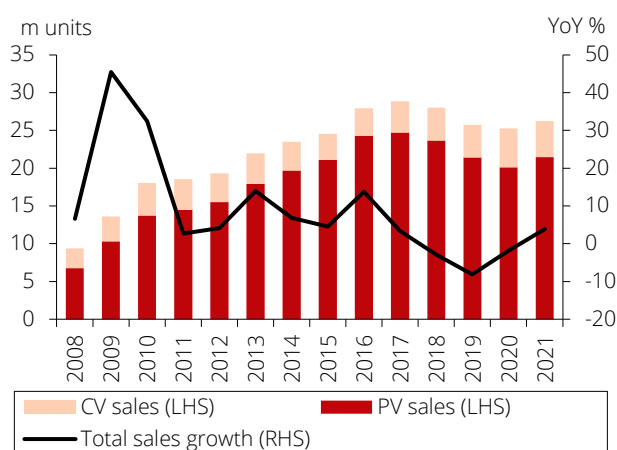
**Macro environment impacting vehicle sales.** The Chinese economy had faced several challenges (pandemic, property slowdown, and regulatory concerns) in 2021 which have affected the consumer sentiment. But total vehicle sales still managed to achieve about 4% y-o-y expansion in 2021, ending three years of contraction (2018-2020).

China property impact on vehicle sales



Source: CEIC

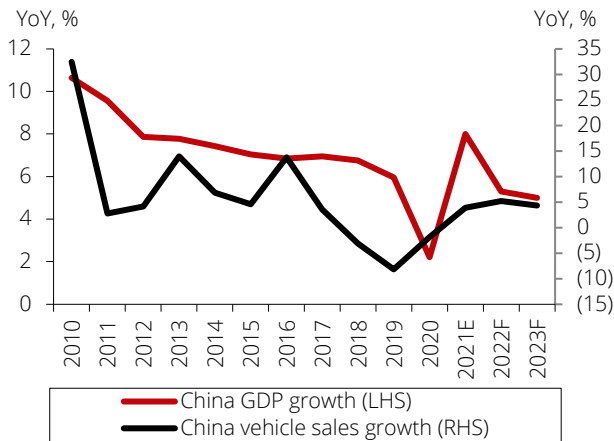
China total vehicle sales performance



Source: CEIC

While the Chinese economy is expected to post slower growth and a slowdown of the property sector in 2022, we believe the Chinese automobile market will remain in positive territory as domestic consumption is an important economic pillar. We expect the Chinese government to remain supportive of the auto sector (especially NEVs) this year.

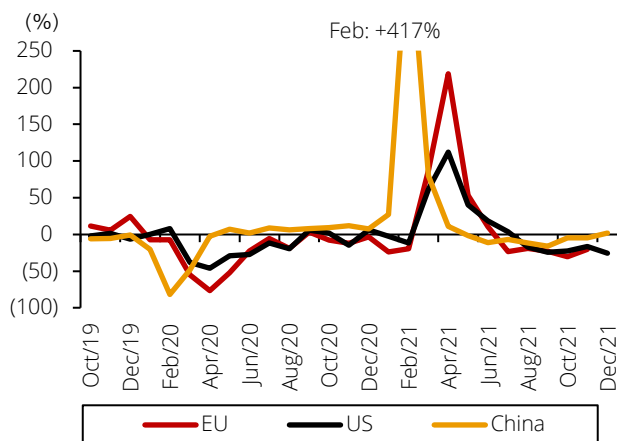
**China GDP vs total vehicle sales**



Source: CEIC; DBS HK

Global semiconductor manufacturers are increasing their production capacity to improve the supply of chips. While the chip shortage has hit the global automobile market, the impact on the Chinese market is lesser compared to the US and Europe. China monthly passenger vehicle (PV) volume sales have been improving in 4Q21. After posting a small contraction of 4.9%/4.6% y-o-y in Oct and Nov-21, PV sales turned in a small positive expansion of c.2% in Dec-21. The overall PV market grew by 6.6% in 2021.

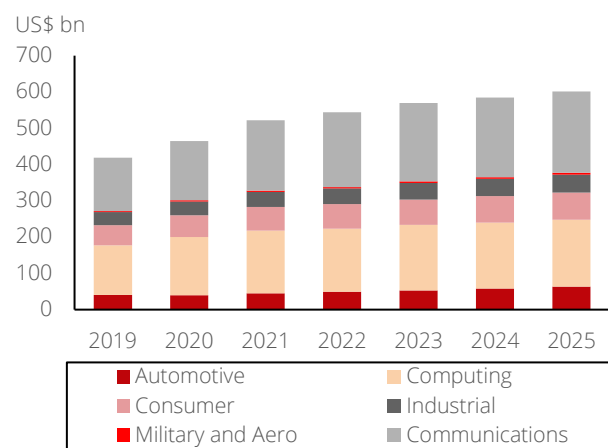
**Major automobile markets sales performance**



Source: CEIC

Chip supply is expected to improve as new production capacity comes onstream. Our house view is that the chip shortage situation should start to improve in 1H22 and normalise in 2023. A lot of capacities are expected to come onstream around 2023 to boost chip production. Hence, automakers are ready to restock sales channels and production pace should accelerate in 2H22 as supply of critical parts and components increases.

**Global semiconductor market size by segments**



Source: IDC

**Automakers collaborating with semiconductor manufacturers**

Given the rise in smart connected vehicle development, the current auto chip shortage has also spurred many automakers (both domestic and global OEMs) to work directly with semiconductor manufacturers to develop more advanced auto chips to ensure stable future supply. Some auto OEMs have also started sourcing directly from semiconductor manufacturers to shorten the lead-time.

On the mainland, many Chinese automakers such as Great Wall Motor, Dongfeng Motor, Geely, Guangzhou Auto etc have entered into joint venture arrangements with domestic players such as Black Sesame Technologies and Beijing Horizon Robotics Technologies to secure their future supply of advanced chips.

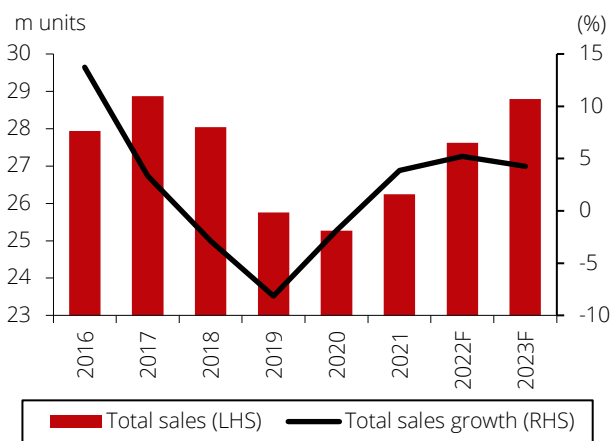
**Full liberalisation of the Chinese automobile market**

Starting 2022, the PV market will be liberalised, allowing foreign automakers to incorporate 100% owned entities in the country, as well as removing the cap on maximum of two local joint ventures. We expect the impact to be mild as

most of the global automakers already have presence in China and the auto market is highly competitive.

We estimate the Chinese auto market will grow by c.5.2% y-o-y in 2022, of which the PV market is projected to expand by 7.5% y-o-y. The growth pace is faster compared to 2021 expansion of c.4%/6.6% respectively.

**Total vehicle sales projections**



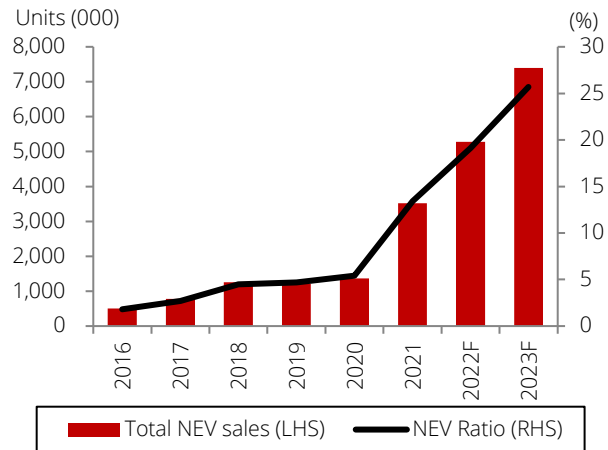
Source: CEIC; DBS HK

**1) NEV market**

**NEV sector remains the bright spot.** The Chinese NEV market surged 1.6x in 2021, led by strong model pipelines and favourable support by the local governments to promote low carbon mobility, despite NEV subsidies were cut by 20% last year.

We project the NEV market to grow by c.50% y-o-y in 2022 to c.5.3m units, on a high base of c.3.52m units in 2021. NEV penetration is estimated to reach almost 20% by the end of 2022 (2021: 13.4%). Hence, the NEV market will continue to be the bright spot given the strong fundamentals. So far, NEV demand has been relatively resilient despite market challenges.

**China NEV market sales projections**



Source: CEIC; DBS HK

**Favourable NEV policy is an important booster to industry growth.** For instance, the Shenzhen government has further relaxed the NEV registration quota this year, hence boosting NEV sales in the city. We anticipate more provincial and city governments to follow the central government's directive in promoting the NEV sector with favourable policies, especially in stimulating NEV sales in lower tier cities.

The government has also kept the NEV purchase tax waiver for 2022 and removed the cap of 2m units as well. This should bode well for the overall NEV market outlook.

Although the NEV subsidy scheme will expire by the end of 2022, we believe the impact on the industry is mild. The Chinese government has cut the amount of NEV subsidy over the years and based on the Jan-22 announcement, the amount of subsidy will be further reduced by 20-30% from 2021's levels. Despite NEV subsidy was cut 20%, total NEV sales have remained robust in 2021 (+1.6x), which implies that car buyers are getting less reliant on NEV subsidies for their purchases. Besides, the waiver on NEV purchase tax also helps to mitigate the lower subsidy impact.

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2022 NEV subsidy (passenger vehicles)

Car Type	Pure EV mileage R (km)		
Pure EV subsidy	300 ≤ R < 400	R ≥ 400	R ≥ 50 (NEDC) R > 43 (WLTC)
	Rmb9,100	Rmb12,600	n.a.
Plug-in hybrid subsidy	n.a.	n.a.	Rmb4,800

Non private users

Car Type	Pure EV mileage R (km)		
Pure EV subsidy	300 ≤ R < 400	R ≥ 400	R ≥ 50 (NEDC) R > 43 (WLTC)
	Rmb13,000	Rmb18,000	n.a.
Plug-in hybrid subsidy	n.a.	n.a.	Rmb7,200

Note: The formula for the pure EV subsidy = Minimum of (Subsidy standard for mileage range. Electricity capacity \* Rmb280) x battery system energy density adjustment multiple x energy consumption level adjustment multiple

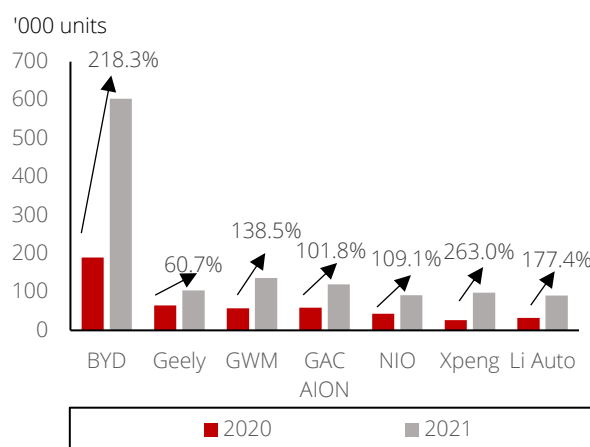
ASP (pre subsidy) must be below Rmb300,000/vehicle

Source: MIIT

Acceleration of EV strategy among various automakers is expected to support the medium-term outlook of the Chinese NEV market. Automakers are rolling out more affordable NEV models in the coming quarters in order to meet the dual credit system as well as to boost the sales outlook. Both the Chinese self- and foreign brands are launching their latest models in China and acceleration of their EV strategy is part of their goal to strengthen their market presence. So far, the Chinese automakers are leading in the NEV race.

**Self-brands leading in NEV sales.** The Chinese automakers have been leading the NEV market (being dominant and new generation players). Chinese automakers' NEV sales were relatively strong in 2021 and expected to stay robust in 2022.

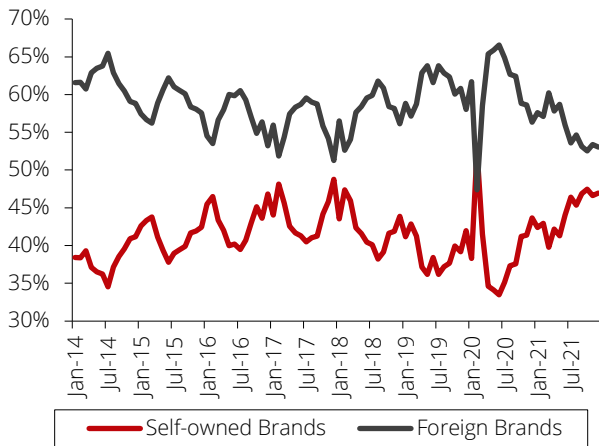
Chinese automakers' NEV sales



Source: Company

In fact, the Chinese self-brand PV market share has been improving since the low in Jun-20, hitting a high of c.47% in 4Q21. The Chinese brands' market share is expected to remain above 45% in 2022.

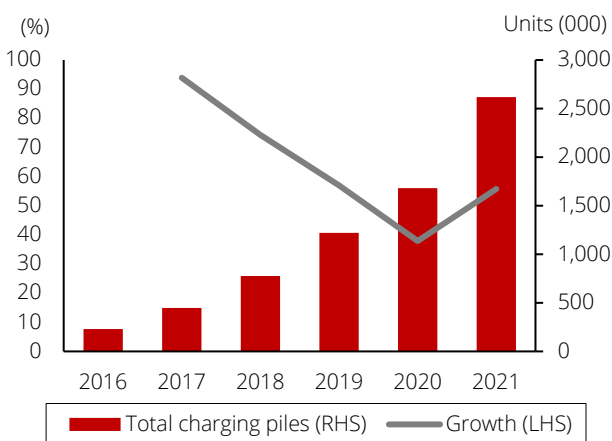
**Auto brand segment market share**



Source: CEIC

**NEV makers investment in hybrid technology and battery swap solution to address near-term insufficient charging infrastructures.** The current charging infrastructure is still lacking, hence curtailing a faster adoption of electric vehicles. As of end 2021, there were a total of approximately 2.6m charging piles, compared to about 9m NEVs on the roads.

**China charging infrastructure network**



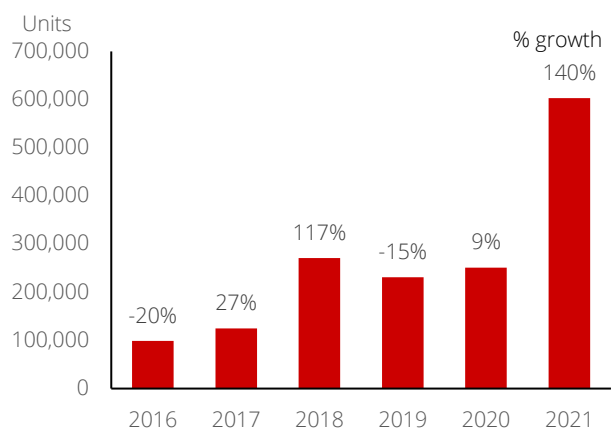
Source: EVCIPA

As a result, automakers are accelerating their hybrid vehicle strategy to overcome the insufficient charging infrastructure issue. For instance, Guangzhou Auto has a target to achieve

full hybrid penetration of its Trumpchi brand by 2025. Other Chinese OEMs are also intensifying their hybrid rollout, including BYD (DM-i technology), Geely (Leishen platform), and Great Wall Motor (Lemon platform).

In 2021, total plug-in hybrid vehicle sales in China surged 140% to more than 600,000 units. From 2019-2021, plug-in hybrids accounted for about 17-19% of total NEV sales in China.

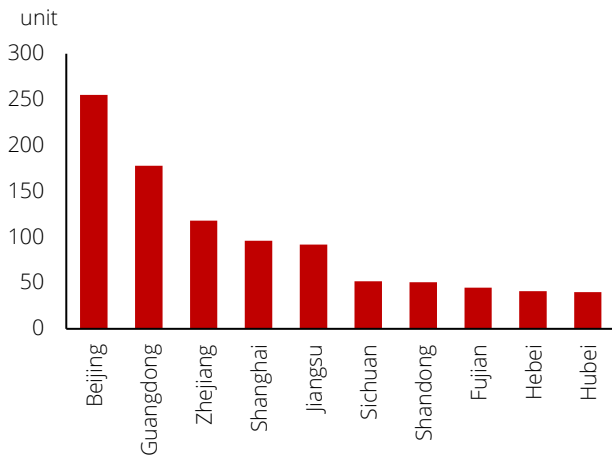
**China plug-in hybrid vehicle monthly sales**



Source: CEIC

Plus, the government is encouraging the roll out of battery swap solutions in more cities (Beijing, Nanjing, Wuhan, Sanya, Chongqing, Changchun, Hefei, Jinan and etc) under a pilot scheme to address the rising demand for charging infrastructure network. The plans call for the construction of 1,000 battery swap centres to support 100,000 battery swappable electric vehicles in each of these cities. There were about 1,300 swapping stations as of end 2021, of which Beijing accounted for c.20% of total share. Based on market estimates, the number of battery swap stations could potentially reach 22,000 units by 2025 and creating a market size of Rmb263bn in values.

**China battery swap infrastructure network (2021)**



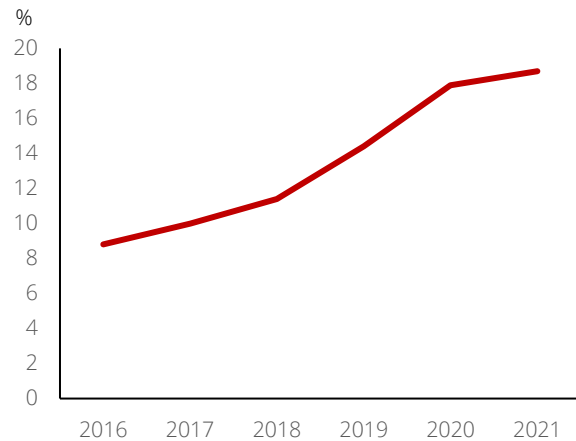
Source: EVCIPA

Automakers (such as NIO, GAC, Geely etc), battery makers (such as CATL) and private services providers (like grid operators) are rolling out battery swap solutions in the coming few years.

2) Premium car market

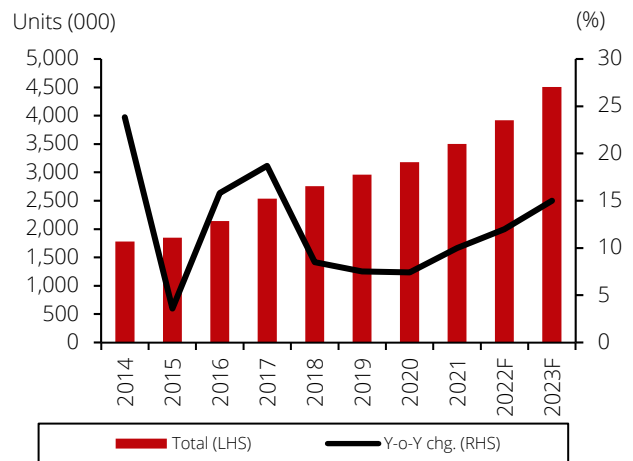
**Auto dealership sector outlook is stable.** In 2021, the premium car market recorded approximately 10% volume expansion. Due to the tight new vehicle supply, certain premium auto brands were unable to meet the demand and some sales orders are yet to be fulfilled, as the waiting period is about 1-3 months, depending on the availability of certain popular models. The sales backlog is supportive of the dealerships' outlook in 1H22. We estimate premium car sales to grow at 12-15% y-o-y in 2022-23, underpinned by healthy demand and rich new model cycle.

**Premium car penetration rate**



Source: CPCA

**China premium market sales projections**



Source: Company; DBS HK

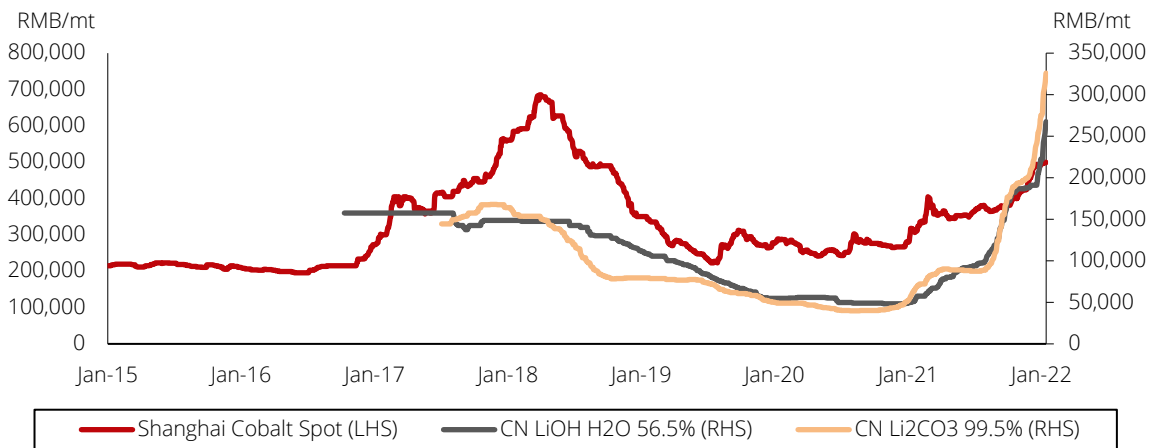
The current tight vehicle supply is supportive of dealerships' pricing and high profit margins on new vehicle sales, at least in 1H22. With new vehicle supply expected to gradually pick up in 2H22, new vehicle profit margins could start to normalise. As a result, we anticipate some switching by investors out of the dealership sector by then.

**Investment risks and mitigating factors by automakers**

**Spike in key metal prices.** The high commodity prices (such as lithium and aluminium) were driven by the strong global EV market given the growing demand for these key metals

on rising vehicle electrification. Global automakers are facing growing production costs pressure as a result of the sharp spike in raw material prices. Continual pressure from these metal price hikes could delay the cost parity point of internal combustion engine and EVs and compress product margins.

**Battery metal price trends**

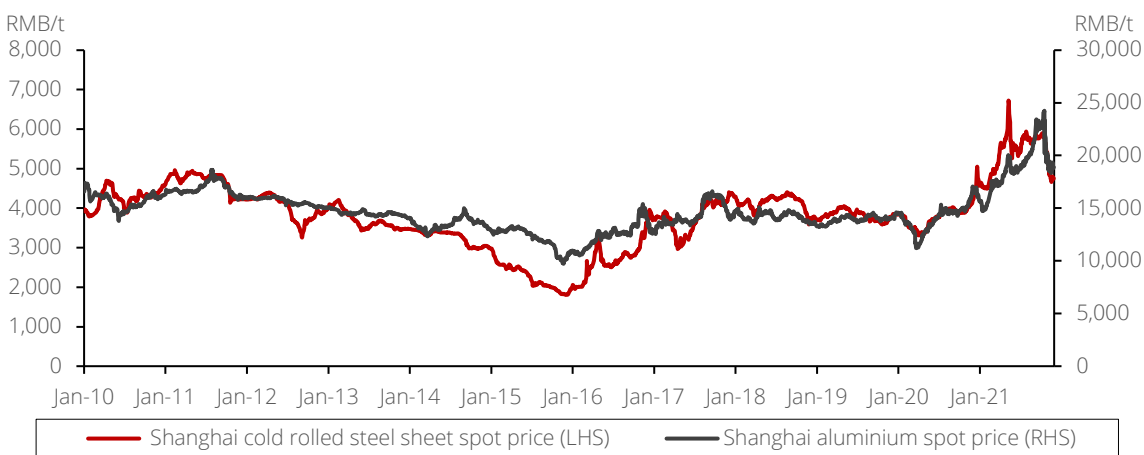


Source: Bloomberg Finance L.P.

While steel and aluminium prices have eased recently after the sharp spike during 2021, our metal commodity team

expects most metals (such as copper, steel, and aluminium) to fluctuate within a small price range.

**Steel and aluminium price trends**

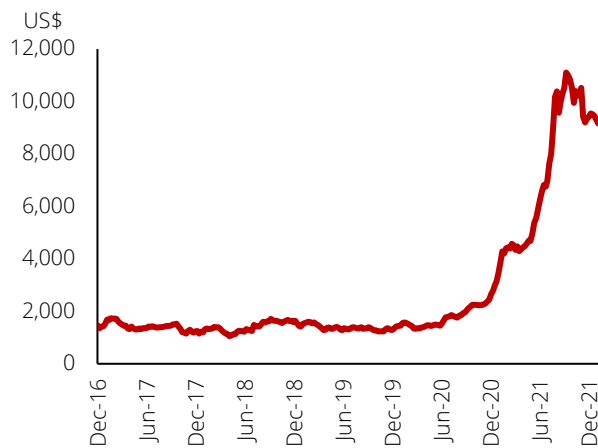


Source: Bloomberg Finance L.P.



**Risk of supply chain disruptions.** Supply chain constraints are expected to remain a challenge in 1H22 especially with the uncertainty over Omicron, the latest Covid variant. Logistic bottleneck could be extended if the Covid situation worsens. This could impact the supply of critical components and parts to the automakers.

**Global container freight index (Freightos Index)**

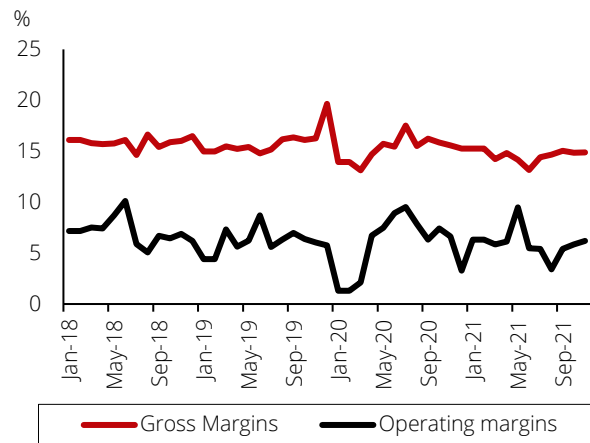


Source: Bloomberg Finance L.P.

**Mitigating factors by automakers.** Vehicle-mix rebalancing, reduction in selling expenses, and working directly with semiconductor manufacturers are measures taken by automakers to combat raw materials price escalation and supply chain disruptions. These measures aim to lower the pressure on the auto manufacturers' future profit margins.

The auto industry's average gross profit margin trend is starting to show signs of stabilisation. On the other hand, operating profit margin is picking up since touching a low in Aug-21.

**Auto industry average profit margins**



Source: CEIC

## China Auto Sector

## Valuation and recommendation

**Sector valuation is bottoming out.** We believe the sequential improvement in vehicle sales bodes well on sector valuation. We anticipate the market to favour the automakers especially when their monthly vehicle sales numbers start to show strength. Automakers are adjusting relatively well to the tight supply chain situation, resulting in better product

and revenue mix. We believe automakers are likely to maintain a slight supply imbalance to generate better profit margins to mitigate the high raw material costs. The new energy vehicle (NEV) segment will remain to be in the spotlight given the robust sales outlook and cheaper valuation multiples after the recent correction.

The Chinese automobile sector is trading at 9-13x FY22F PE.

## Share price performance

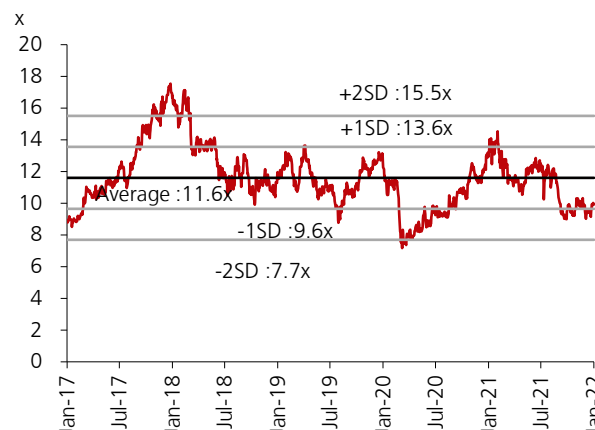
Share Price Performance (%)						
Company	Code	1-month	3-month	6-month	1-year	YTD
Grand Baoxin Auto	HK1293	(12.3)	(31.9)	(62.4)	(12.3)	(5.9)
China Harmony	HK3836	5.1	11.9	21.3	39.8	(3.0)
China Meidong	HK1268	(18.3)	(18.2)	(24.9)	27.2	(12.2)
China Yongda	HK3669	(9.2)	(18.3)	(39.6)	(14.1)	(4.5)
China ZhengTong	HK1728	(21.7)	(31.4)	(43.8)	(8.9)	(17.2)
Zhongsheng	HK881	(3.0)	(10.6)	(19.9)	21.0	0.5
Fuyao Glass	HK3606	14.1	(1.1)	(17.1)	(11.9)	12.5
Mint	HK425	9.2	20.2	7.4	(9.7)	7.3
Nexteer	HK1316	10.9	12.8	4.1	(6.1)	10.7
Weichai Power	HK2338	2.7	6.7	(4.2)	(22.5)	3.7
Xinchen China	HK1148	(1.2)	(28.3)	50.0	84.1	11.0
Xingda	HK1899	6.0	0.6	(7.3)	(16.5)	3.5
Xinyi Glass	HK868	2.2	(13.2)	(42.5)	(3.0)	(0.9)
BAIC Motor	HK1958	(18.8)	12.5	2.9	7.0	(3.6)
BYD	HK1211	0.2	(3.9)	25.2	13.0	(0.2)
Chongqing Changan	CH200625	(11.3)	(15.4)	(21.0)	(11.6)	(4.1)
Dongfeng Motor	HK489	6.1	(4.0)	2.4	(18.3)	10.3
Geely Auto	HK175	(14.1)	(22.4)	(21.0)	(39.9)	(9.7)
Great Wall Motor	HK2333	(8.6)	(24.4)	(9.0)	(9.0)	(5.4)
Guangzhou Auto	HK2238	2.0	6.7	17.1	(3.9)	7.7
Li Auto	HK2015	4.8	4.1	n.a.	n.a.	(0.5)
Qingling	HK1122	0.0	(2.4)	(3.0)	(1.8)	1.9
SAIC Motor	CH600104	(3.9)	(4.2)	(3.2)	(18.7)	(2.4)
Sinotruk	HK3808	6.7	3.3	(10.8)	(45.9)	3.5
XPENG	HK9868	15.2	14.3	25.8	n.a.	1.9
<b>HSI</b>	<b>HSI</b>	<b>4.0</b>	<b>(5.1)</b>	<b>(13.9)</b>	<b>(16.5)</b>	<b>3.1</b>

Source: Thomson Reuters

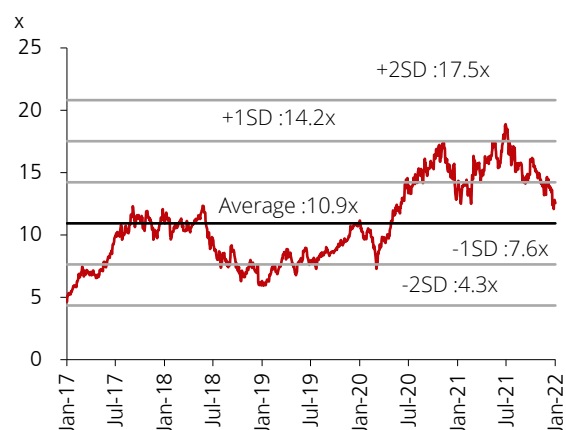
China auto makers PE chart



China parts manufacturers PE chart



China auto dealerships PE chart \



Source: Thomson Reuters, DBS HK

**Our top picks.** While we anticipate some switching among the Chinese automobile names, we prefer those with leading market presence in the NEV segment and strong fundamentals to navigate the market uncertainty.

Our top pick is BYD, given its strong exposure to the NEV sector as well as the ability to produce certain critical components to support its fast business expansion. BYD is ahead of peers in terms of its eco-system development.

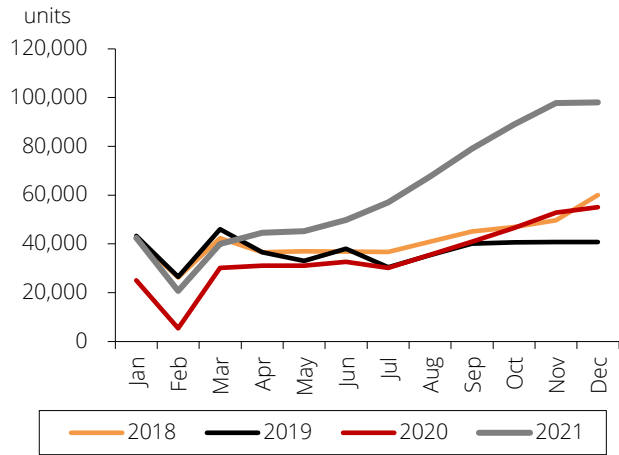
Among the NEV proxies, GAC stands out for its rapid capacity expansion to support the rich NEV pipeline and potential turnaround of the self-brand business to enhance earnings quality. Our next favourite is Geely, the largest Chinese automaker in terms of volume sales. The company is leveraging the Zeekr brand to accelerate the NEV portfolio

and development pace as well as work with industry leaders in autonomous vehicle driving capability.

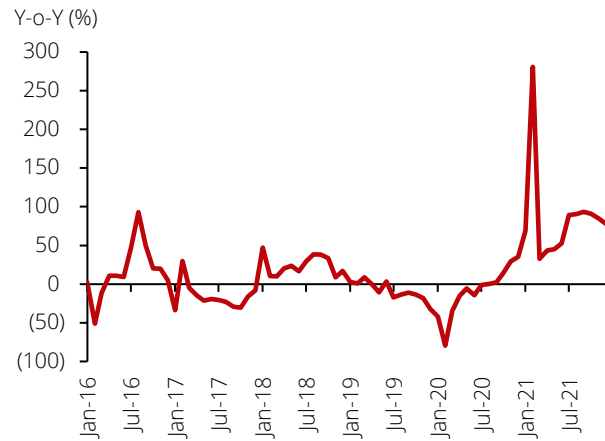
On the dealership sector, we like Zhongsheng as the company is well positioned to enjoy the strong Mercedes Benz robust new cycle from 2021-2024 to support its earnings quality.

Appendix

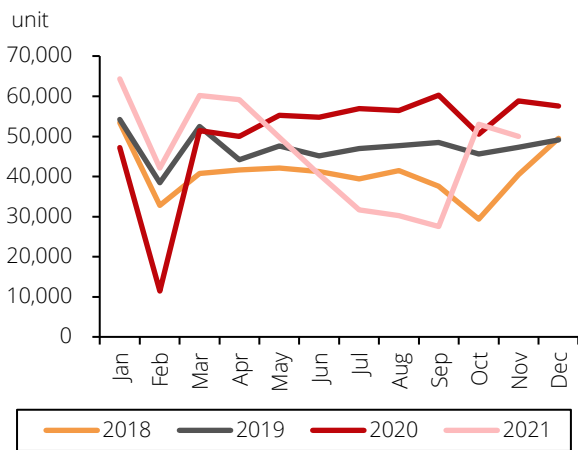
BYD - total PV monthly sales



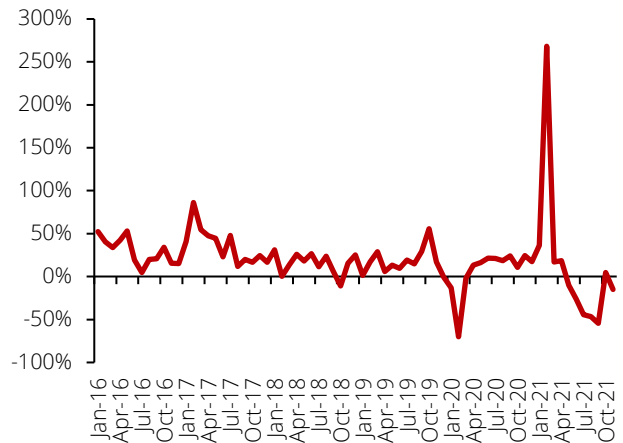
BYD - total PV monthly sales growth



BAIC Benz monthly sales

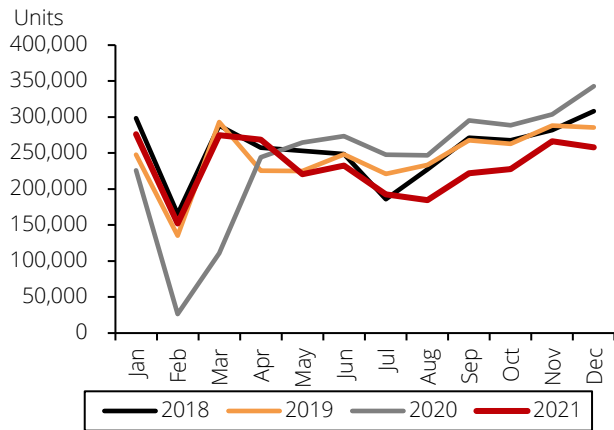


BAIC Benz monthly sales growth

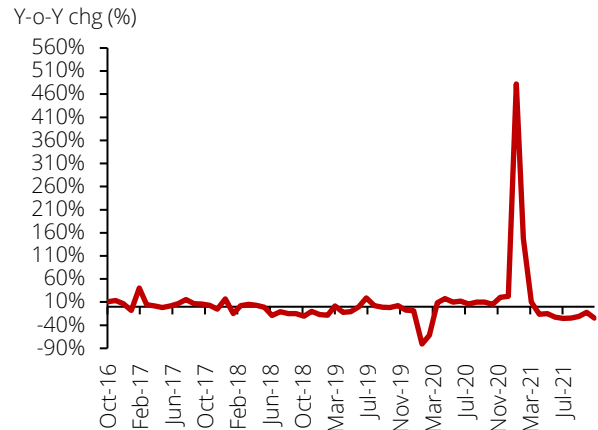


Source: Company

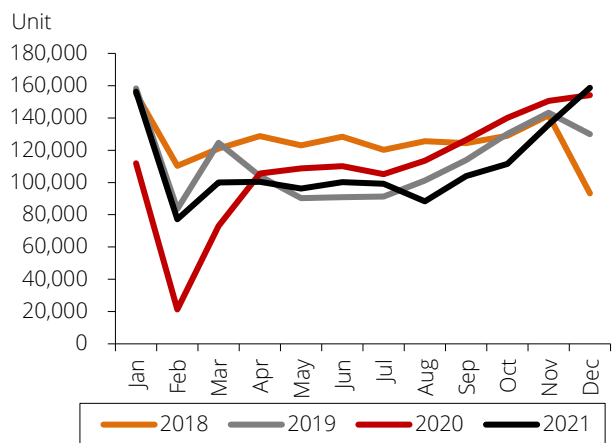
Dongfeng - total monthly sales



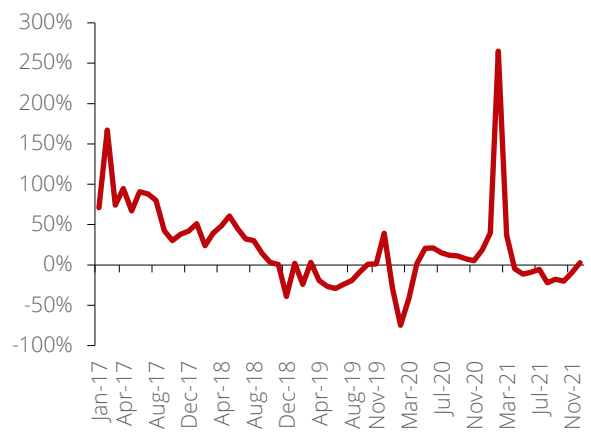
Dongfeng - total monthly sales growth



Geely Automobile - total monthly sales

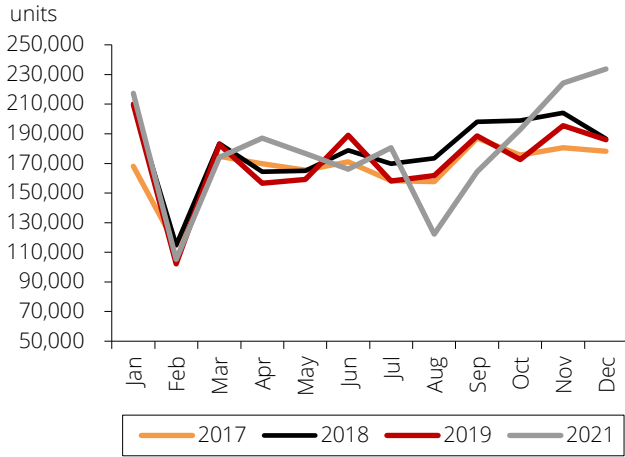


Geely Automobile - total monthly sales growth

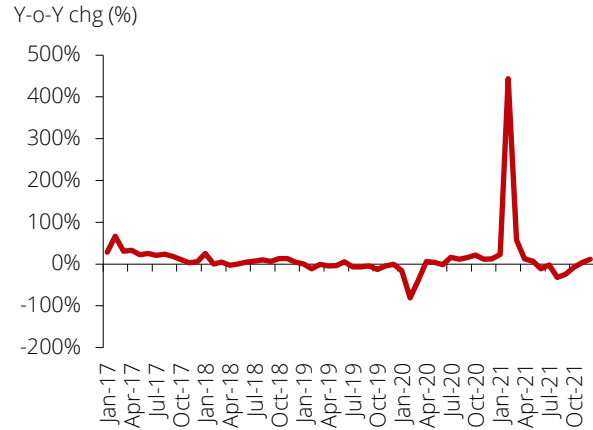


Source: Company

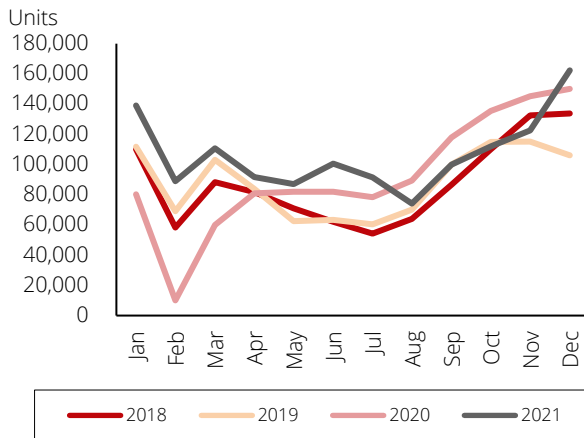
GAC - total monthly sales



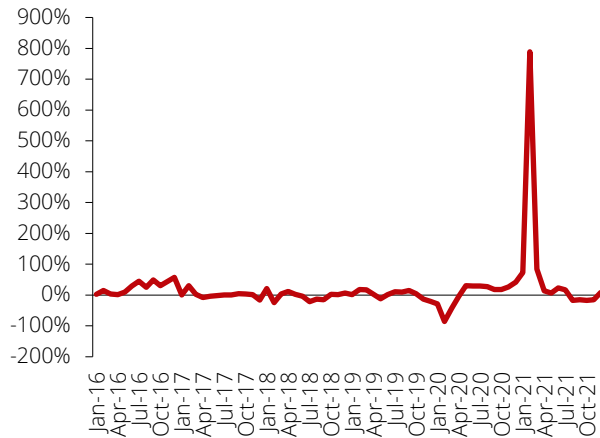
GAC - total monthly sales growth



Great Wall China - total monthly sales

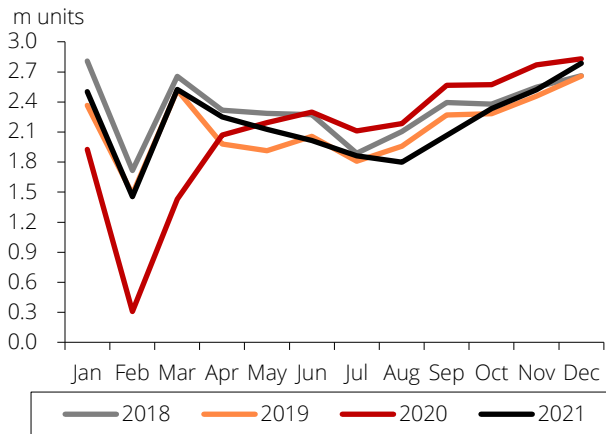


Great Wall China - total monthly sales growth

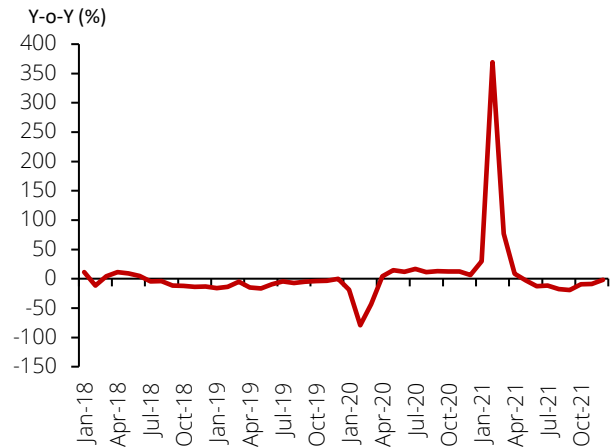


Source: Company

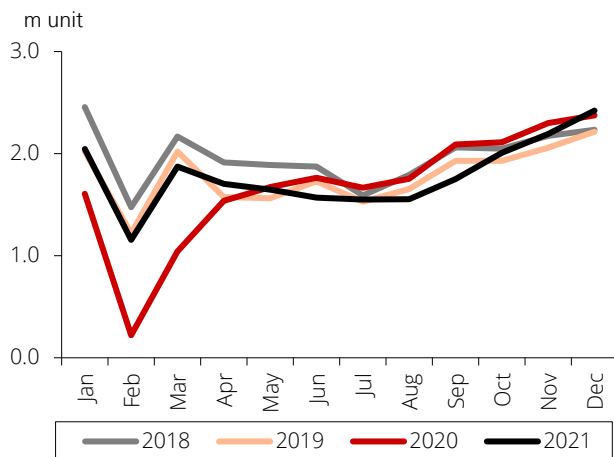
Monthly total vehicle sales in China



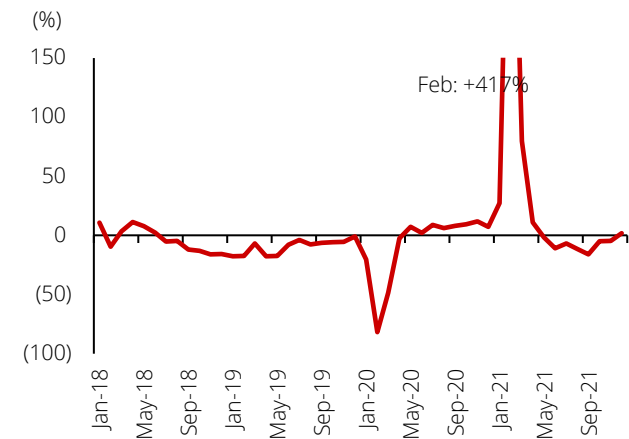
Monthly total vehicle sales growth



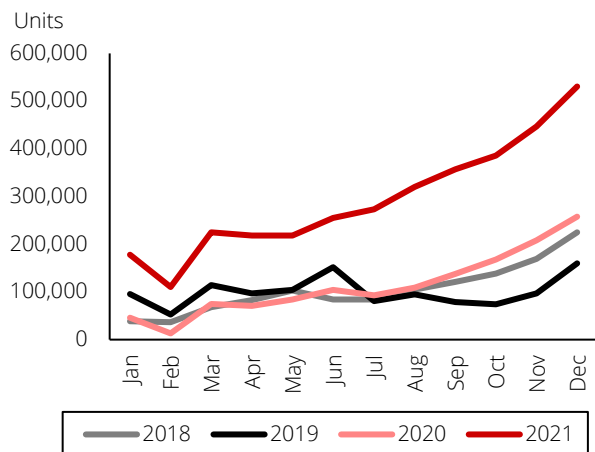
Monthly PV sales in China



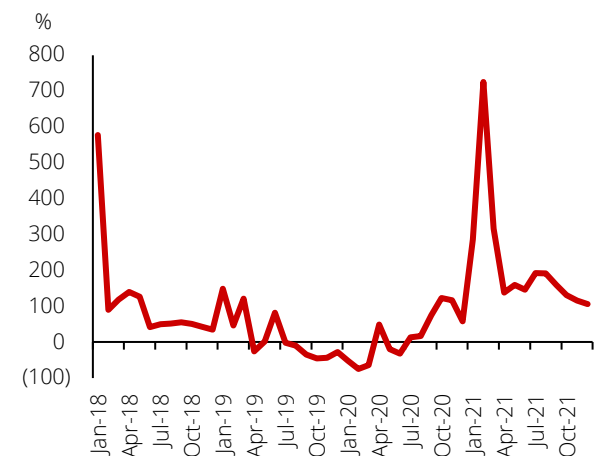
Monthly PV sales growth



Monthly NEV sales in China

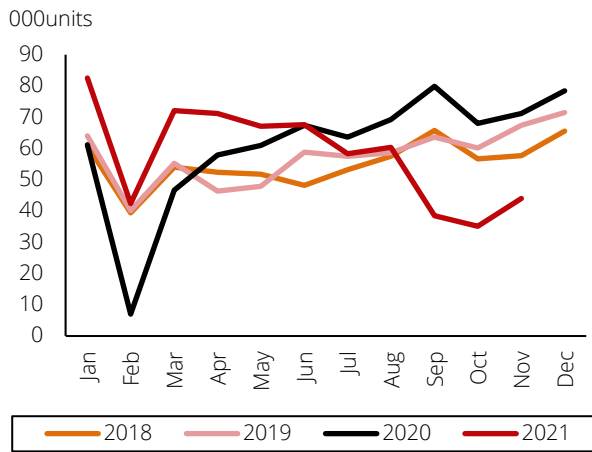


Monthly NEV sales growth

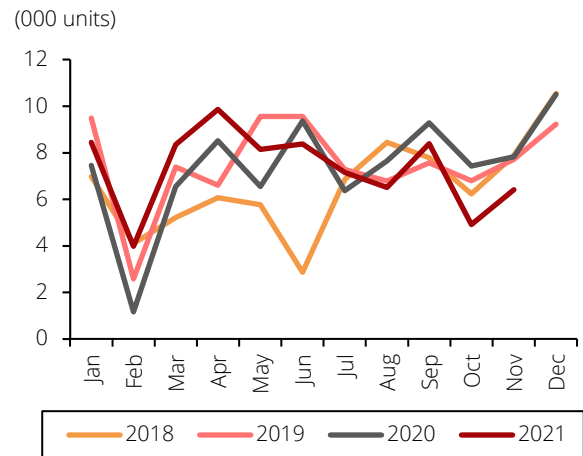


Source: CEIC

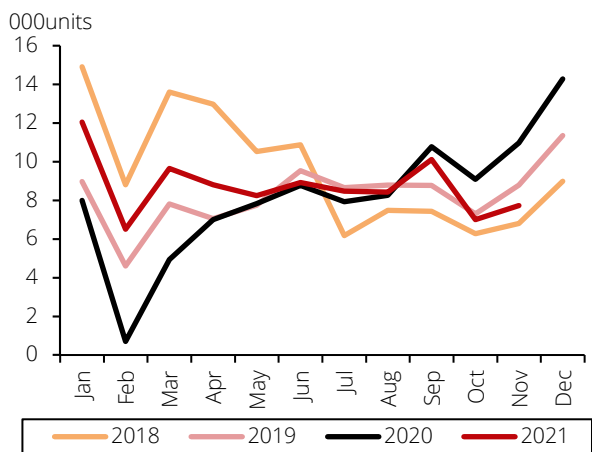
**Audi - monthly volume sales**



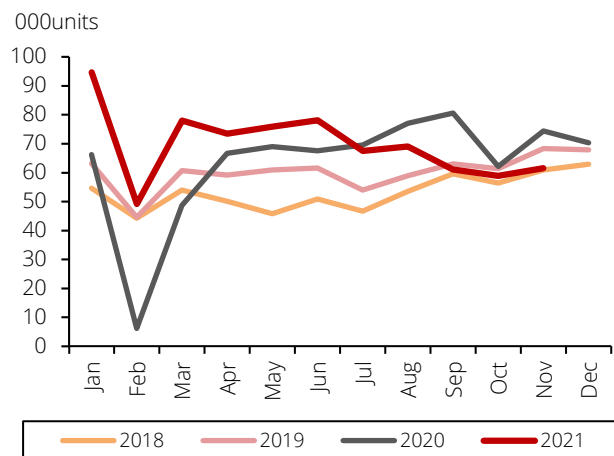
**Porsche - monthly volume sales**



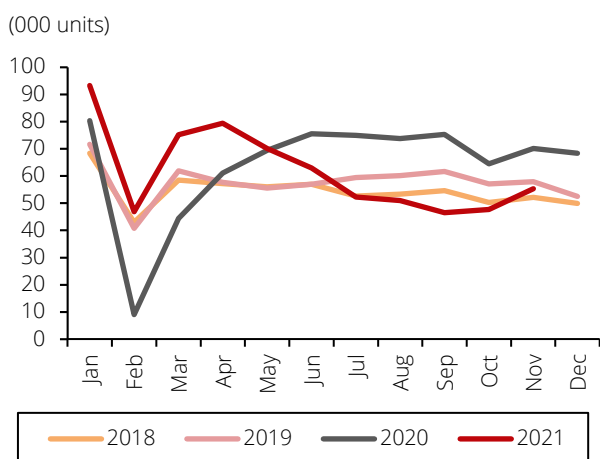
**Jaguar Land Rover - monthly volume sales**



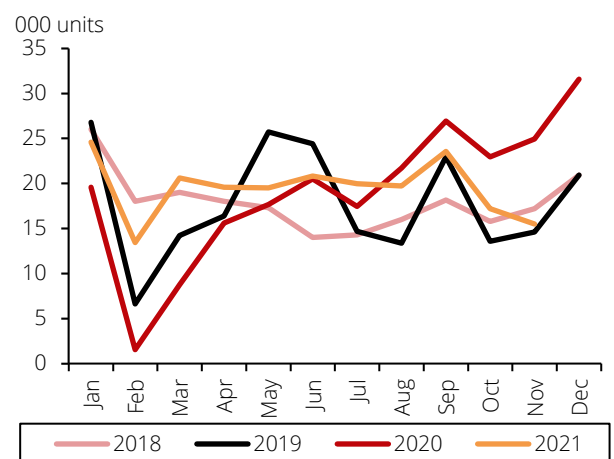
**BMW - monthly volume sales**



**Mercedes Benz - monthly volume sales**



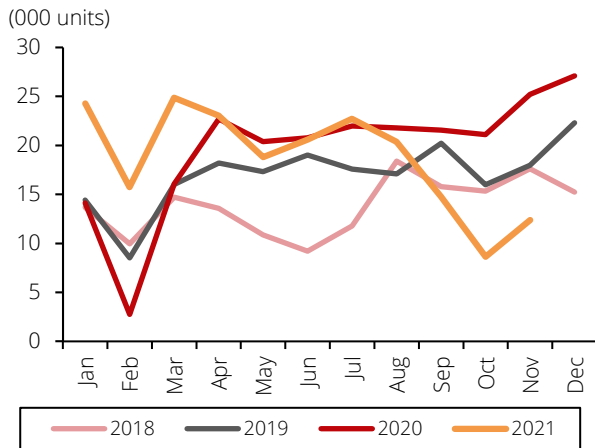
**Cadillac - monthly volume sales**



Source: Company

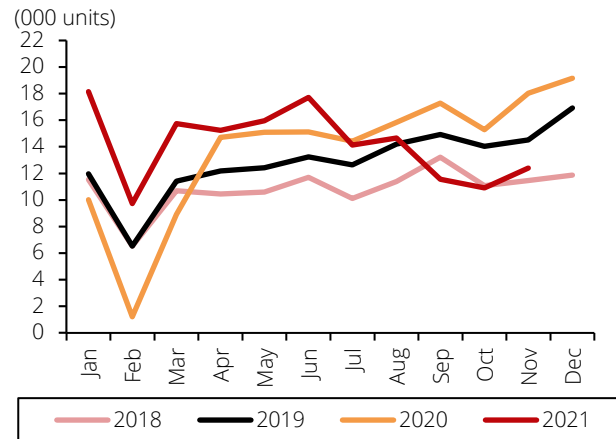


**Lexus - monthly volume sales**



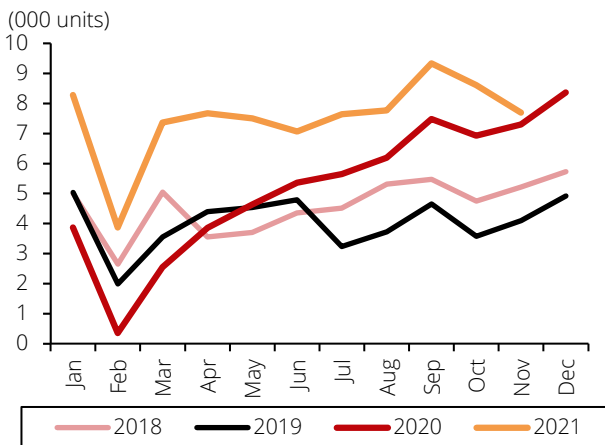
Source: Company

**Volvo - monthly volume sales**



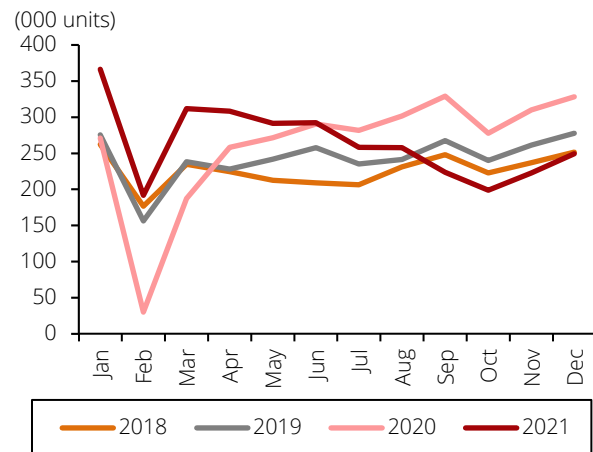
Source: Company

**Lincoln - monthly volume sales**



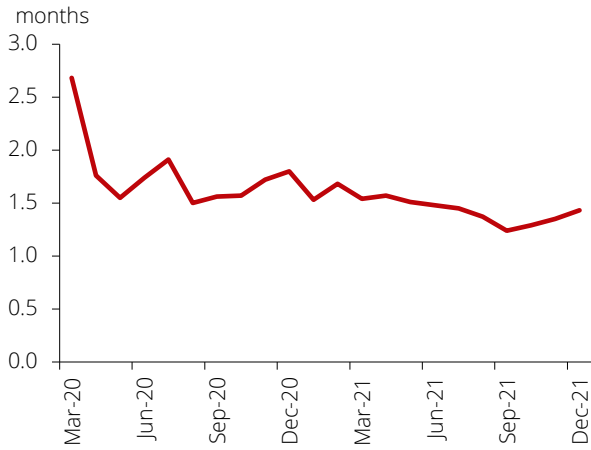
Source: Company

**Premium cars - monthly volume sales**



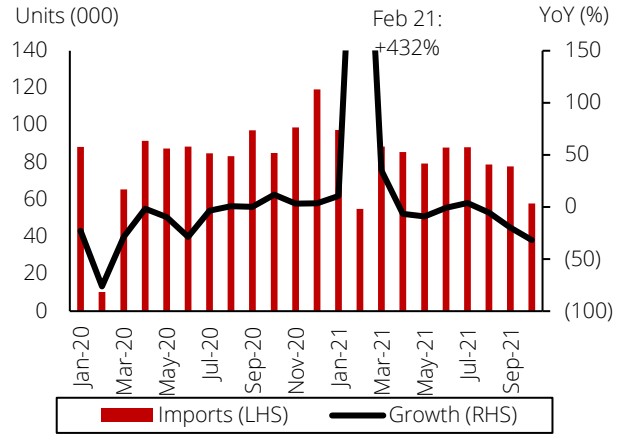
Source: Company

Vehicle inventory average turnover days



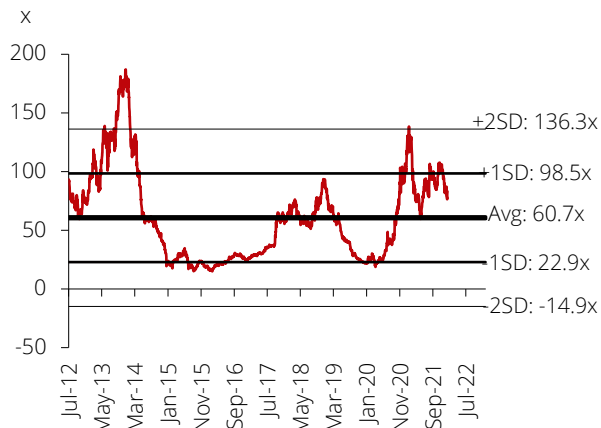
Source: CEIC

Vehicle imports charts

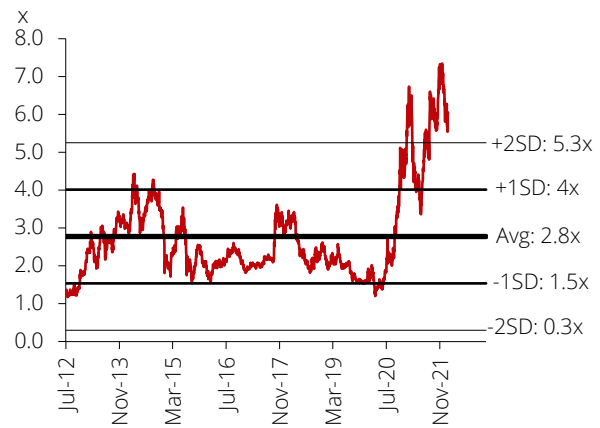


Source: CEIC

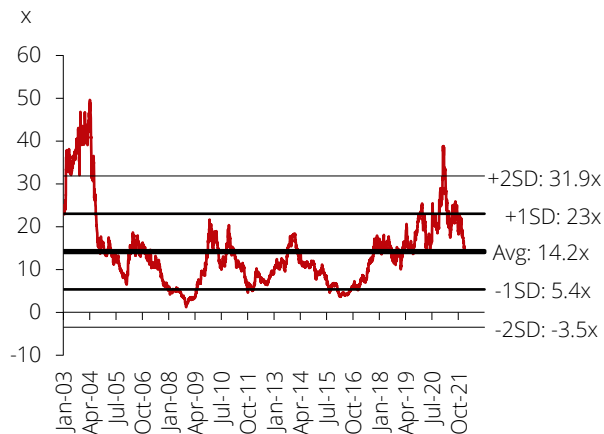
BYD - PE chart



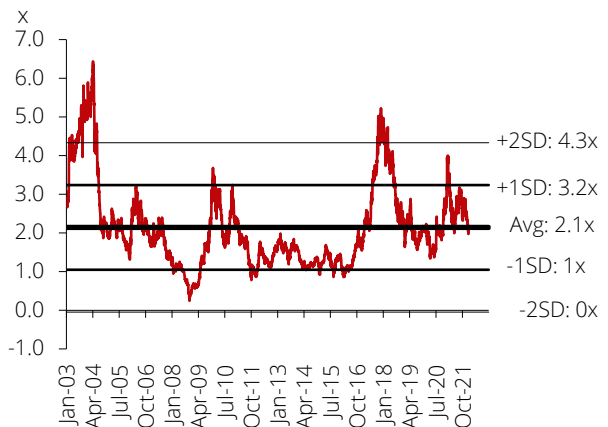
BYD - PB chart



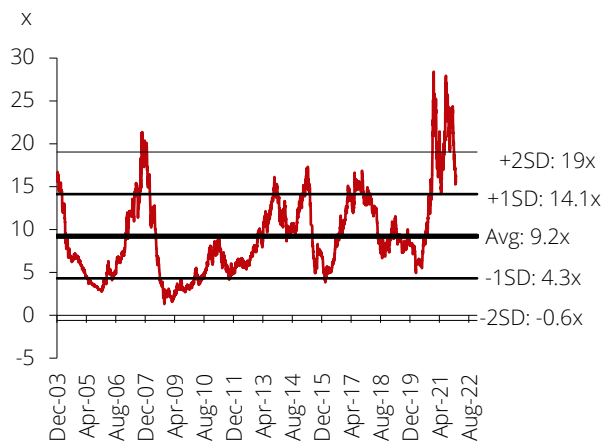
Geely - PE chart



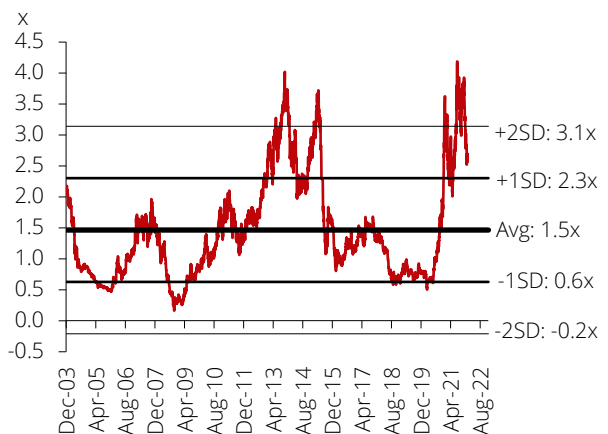
Geely - PB chart



Great Wall - PE chart

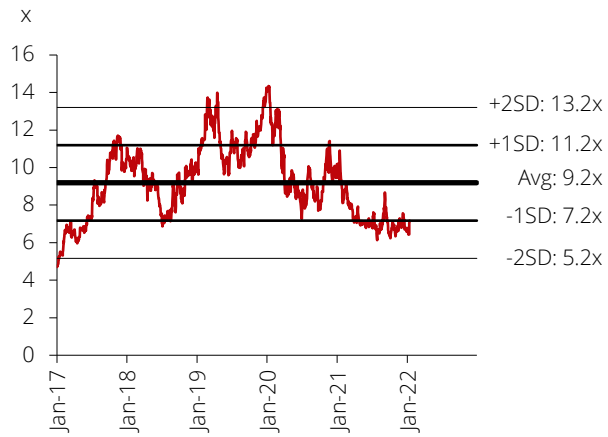


Great Wall - PB chart

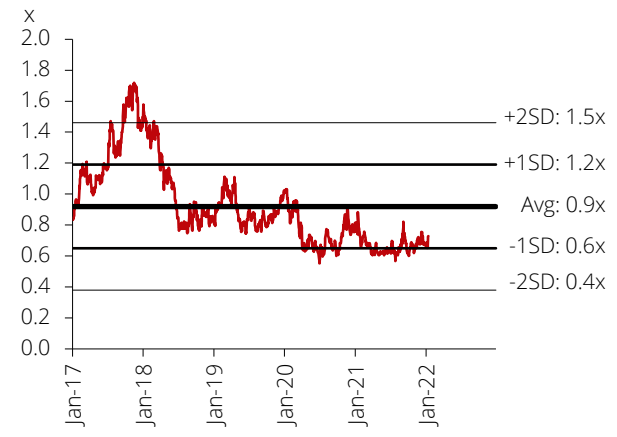


Source: Thomson Reuters, DBS HK

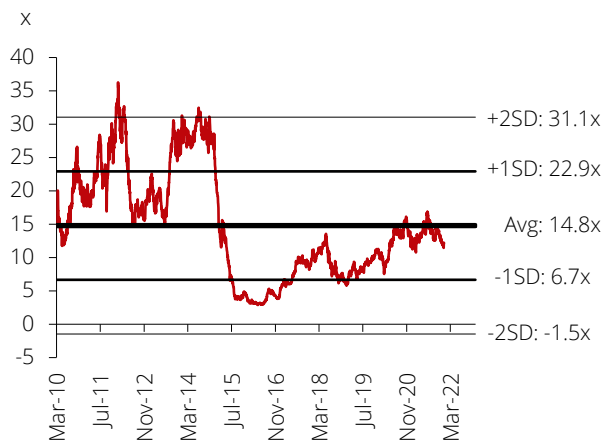
Guangzhou Auto - PE chart



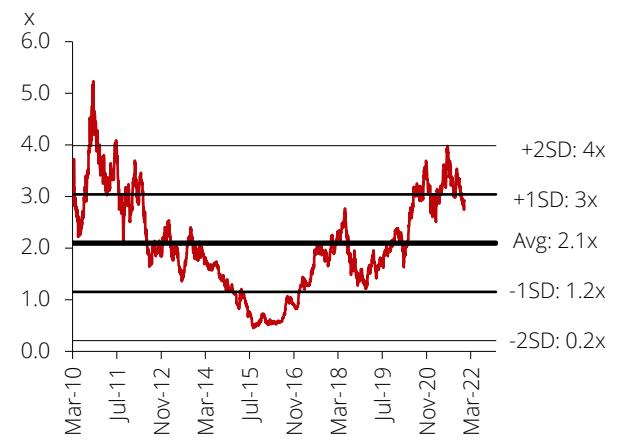
Guangzhou Auto - PB chart



Zhongsheng - PE chart



Zhongsheng - PB chart



Source: Thomson Reuters, DBS HK

## Peers comparison table (Auto Parts)

Company Name	Code	Currency	Price Local\$	Mkt Cap US\$m	Fiscal Yr	PE	PE	Yield	Yield	P/Bk	P/Bk	EV/EBITDA	ROE	ROE	
						21F x	22F x	21F %	22F %	21F x	22F x	21F x	22F x	21F %	22F %
<b>Hong Kong</b>															
Fuyao Glass Industry Gp. Co.'H'	3606	HK	45.35	19,041	Dec	25.6	19.8	2.4	2.9	3.8	3.4	15.7	13.1	15.6	18.2
Mint Group*	425	HK	36.85	5,471	Dec	18.8	14.8	2.2	2.7	2.1	1.9	12.4	10.3	11.7	13.6
Nexteer Automotive Group*	1316	HK	10.72	3,456	Dec	15.6	11.3	1.3	1.8	1.7	1.5	5.9	4.4	11.1	13.8
Weichai Power 'H'	2338	HK	15.82	22,293	Dec	11.4	10.2	3.0	3.0	1.7	1.5	4.3	3.9	16.0	15.2
Xinchen China Power Holdings*	1148	HK	0.81	133	Dec	3.0	n.a.	0.0	0.0	0.2	n.a.	(0.9)	0.0	8.7	0.0
Xingda Intl.Holdings	1899	HK	1.77	378	Dec	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Xinyi Glass Holdings	868	HK	19.32	9,974	Dec	6.8	6.9	6.6	6.5	2.2	1.8	5.7	6.0	35.6	30.1
<b>Average</b>						<b>13.5</b>	<b>12.6</b>	<b>2.6</b>	<b>2.8</b>	<b>2.0</b>	<b>2.0</b>	<b>7.2</b>	<b>6.3</b>	<b>16.5</b>	<b>15.1</b>
<b>China</b>															
Fangda Special Stl.Tech. 'A'	600507	CH	8.13	2,759	Dec	6.2	5.9	5.8	6.3	1.7	1.5	n.a.	n.a.	28.2	24.8
Fuyao Gls.Ind.Group 'A'	600660	CH	49.18	19,041	Dec	33.3	25.9	1.9	2.4	5.1	4.6	20.0	16.7	16.1	18.6
Huayu Automotive Sys.'A'	600741	CH	29.88	14,829	Dec	14.4	12.6	3.0	3.5	1.7	1.5	4.6	4.1	11.9	12.5
Jiangsu Pac.Precn.Frgg. 'A'	300258	CH	15.25	1,156	Dec	35.0	25.2	0.8	1.1	2.3	2.1	15.8	12.6	6.6	8.4
Lingyun Industrial 'A'	600480	CH	10.31	1,239	Dec	25.8	17.5	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	5.1	7.3
Ningbo Huaxiang Elt.'A'	002048	CH	24.22	2,387	Dec	11.9	9.7	3.0	4.2	1.4	1.2	5.8	4.8	10.7	11.6
Weifu High Tech.Gp.'B'	200581	CH	15.75	2,041	Dec	4.8	4.7	11.0	9.5	0.7	0.6	7.5	7.1	14.0	13.4
Zhejiang Wanliyang Tnsm. 'A'	002434	CH	13.7	2,890	Dec	24.3	19.5	3.7	4.7	2.7	2.6	13.0	10.9	10.8	12.6
Weifu High Tech.Gp.'A'	000581	CH	22.99	3,650	Dec	8.5	8.5	6.0	5.3	1.2	1.1	5.8	6.6	14.3	13.1
Zhejiang Yinlun Mch.'A'	002126	CH	12.92	1,611	Dec	30.2	20.5	0.5	0.8	2.4	2.2	13.5	10.4	7.7	11.1
Changzhou Xingyu Autv. Ltg.'A'	601799	CH	191.09	8,593	Dec	45.1	31.2	0.7	1.0	7.8	6.5	35.1	24.3	19.4	21.7
<b>Average</b>						<b>25.4</b>	<b>19.2</b>	<b>3.4</b>	<b>3.6</b>	<b>2.8</b>	<b>2.5</b>	<b>13.5</b>	<b>10.8</b>	<b>12.6</b>	<b>13.6</b>

# FY21: FY22; FY22: FY23

Source: Thomson Reuters, \*DBS HK

## Peers comparison table (Automakers)

Company Name	Currency Code	Price Local\$	Mkt Cap US\$m	Fiscal Yr	PE	PE	Yield	Yield	P/Bk	P/Bk	EV/EBITDA	ROE	ROE		
					21F	22F	21F	22F	21F	22F	21F	22F	21F	22F	
					x	x	%	%	x	x	x	x	%	%	
<b>Hong Kong</b>															
Guangzhou Automobile 'H'*	2238 HK	HKD	8.28	20,511	Dec	9.8	7.1	3.1	4.2	0.8	0.7	5.3	4.3	8.2	10.5
Sinotruk (Hong Kong)	3808 HK	HKD	12.42	4,405	Dec	4.9	5.0	6.5	6.0	0.8	0.7	0.9	0.9	17.0	14.3
Dongfeng Motor Gp.'H'*	489 HK	HKD	7.15	7,914	Dec	4.0	3.8	6.0	6.0	0.3	0.3	2.0	1.9	8.8	8.7
Great Wall Motor Co.'H'*	2333 HK	HKD	25.35	54,096	Dec	23.8	16.2	2.0	3.0	3.0	2.7	13.8	10.6	13.2	17.5
BYD 'H'*	1211 HK	HKD	266	113,479	Dec	137.2	85.2	0.1	0.1	6.5	6.1	28.4	22.6	5.9	7.4
Geely Automobile Hdg.*	175 HK	HKD	19.24	24,765	Dec	22.7	15.0	0.9	1.4	2.3	2.0	11.3	8.3	10.8	14.6
BAIC Motor 'H'*	1958 HK	HKD	3.23	3,326	Dec	6.4	5.2	4.7	5.7	0.3	0.4	0.3	0.1	6.3	7.3
<b>Average^</b>						<b>10.7</b>	<b>8.1</b>	<b>3.6</b>	<b>4.1</b>	<b>1.2</b>	<b>1.0</b>	<b>5.4</b>	<b>4.4</b>	<b>12.0</b>	<b>12.3</b>
<b>China</b>															
Saic Motor 'A'	600104 CH	CNY	20.13	37,021	Dec	9.1	8.0	4.3	4.7	0.8	0.8	6.6	5.3	9.6	10.0
Faw Jiefang Group 'A'	000800 CH	CNY	10.18	7,458	Dec	12.3	14.3	2.6	2.9	1.8	1.6	5.5	5.4	11.2	10.9
CQ Changan Auto 'A'*	000625 CH	CNY	14.21	17,072	Dec	n.a.	n.a.	0.0	0.0	n.a.	n.a.	0.0	0.0	0.0	0.0
CQ Changan Auto 'B'	200625 CH	HKD	4.18	4,098	Dec	5.9	4.5	5.1	7.5	0.5	0.4	11.1	9.4	8.0	9.7
Anhui Jianghuai Auto 'A'	600418 CH	CNY	14.67	5,043	Dec	60.6	45.7	0.6	0.8	2.1	2.0	16.4	14.4	3.4	4.4
Yutong Bus 'A'	600066 CH	CNY	10.9	3,883	Dec	27.3	14.1	2.7	4.0	1.6	1.5	12.1	6.4	6.9	11.0
Great Wall Motor 'A'	601633 CH	CNY	45.84	54,096	Dec	52.7	36.0	0.9	1.4	6.7	5.9	30.6	23.5	13.2	17.5
Guangzhou Auto 'A'*	601238 CH	CNY	15.06	20,511	Dec	21.8	15.9	1.4	1.9	1.7	1.6	12.2	9.6	8.2	10.5
BYD 'A'*	002594 CH	CNY	266.08	113,479	Dec	168.1	104.4	0.1	0.1	7.9	7.5	34.6	27.5	5.9	7.4
<b>Average</b>						<b>44.7</b>	<b>30.4</b>	<b>2.0</b>	<b>2.6</b>	<b>2.9</b>	<b>2.7</b>	<b>14.4</b>	<b>11.3</b>	<b>7.4</b>	<b>9.0</b>

^ Exclude outliner

# FY21: FY22; FY22: FY23

Source: Thomson Reuters, \*DBS HK

## Peers comparison table (Auto Dealers)

Company Name	Currency Code	Price Local\$	Mkt Cap US\$m	Fiscal Yr	PE	PE	Yield	Yield	P/Bk	P/Bk	EV/EBITDA	ROE	ROE		
					21F	22F	21F	22F	21F	22F	21F	22F	21F	22F	
					x	x	%	%	x	x	x	x	%	%	
Zhongsheng*	881 HK	HKD	61.1	18,955	Dec	15.4	12.1	1.3	1.7	3.5	2.9	9.7	7.5	25.7	26.6
China Zhengtong*	1728 HK	HKD	0.72	254	Dec	n.a.	6.0	0.0	0.0	0.5	0.4	(43.4)	3.6	(20.7)	7.5
Grand Baoxin Auto	1293 HK	HKD	0.64	233	Dec	2.2	2.0	0.0	0.0	0.2	0.2	2.8	2.6	7.9	8.3
China Yongda Auto*	3669 HK	HKD	9.97	2,522	Dec	6.8	5.9	4.4	5.1	1.2	1.1	5.5	4.6	18.8	19.2
China Meidong Auto	1268 HK	HKD	35.3	5,761	Dec	30.6	20.4	1.8	2.8	9.2	7.4	20.3	14.4	32.4	39.4
China Harmony	3836 HK	HKD	4.78	960	Dec	8.8	7.6	3.1	3.6	0.8	0.7	5.8	5.1	8.6	9.1
<b>Average</b>						<b>12.8</b>	<b>9.0</b>	<b>1.8</b>	<b>2.2</b>	<b>2.6</b>	<b>2.1</b>	<b>0.1</b>	<b>6.3</b>	<b>12.1</b>	<b>18.4</b>
Tan Chong Motor Holdings	TCM MK	MYR	1.11	179	Dec	n.a.	41.1	1.4	1.5	0.3	0.3	n.a.	n.a.	(1.4)	0.9
Wuchan Zhongda 'A'	600704 CH	CNY	5.99	4,899	Dec	8.8	8.0	n.a.	n.a.	1.1	1.0	n.a.	n.a.	13.1	13.3
Offcn Education Tech 'A'	002607 CH	CNY	7.32	7,106	Dec	n.a.	25.2	2.6	2.6	11.6	9.5	895.2	20.3	(1.8)	34.7
Chd.Autv.Ssgp.'A'	600297 CH	CNY	2.72	3,473	Dec	9.5	7.1	0.8	2.4	0.5	0.5	6.9	6.1	5.6	6.8
Wuxi Coml.Mansion 'A'	600327 CH	CNY	5.96	830	Dec	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
<b>Average</b>						<b>9.2</b>	<b>20.4</b>	<b>1.6</b>	<b>2.2</b>	<b>3.4</b>	<b>2.8</b>	<b>451.1</b>	<b>13.2</b>	<b>3.9</b>	<b>13.9</b>

# FY21: FY22; FY22: FY23

Source: Thomson Reuters, \*DBS HK

China Auto Sector

Peers comparison table (NEV)

Company Name	Code	Price		Mkt	PE	PE	P/S	P/S	P/Bk	P/Bk	EV/EBITDA		ROE	ROE
		Local\$	US\$m	Cap	21F	22F	21F	22F	21F	22F	21F	22F	21F	22F
					x	x	x	x	x	x	x	x	%	%
BYD 'H'*	1211 HK	266	113,421		137.0	85.1	3.2	2.5	6.5	6.1	28.4	22.6	5.9	7.4
Nio Adr 1:1	NIO US	29.61	47,097		n.a.	n.a.	8.3	4.8	11.4	12.1	(95.7)	550.7	(25.4)	(7.0)
Tesla	TSLA US	1030.51	1,034,905		160.3	112.3	19.7	13.7	35.9	26.8	73.2	48.4	22.5	25.8
Xpeng Adr 1:2	XPEV US	47.32	45,223		n.a.	n.a.	14.2	7.4	6.9	7.6	(33.8)	(41.9)	(14.9)	(12.4)
Li Auto Adr 2 1:2	LI US	30.47	31,471		n.a.	n.a.	7.8	4.6	6.3	6.3	(225.0)	856.6	(1.4)	0.9
<b>Average</b>					<b>148.7</b>	<b>98.7</b>	<b>10.6</b>	<b>6.6</b>	<b>13.4</b>	<b>11.8</b>	<b>(50.6)</b>	<b>287.3</b>	<b>(2.7)</b>	<b>2.9</b>

# FY21: FY22; FY22: FY23

Source: Thomson Reuters, \*DBS HK

# BYD Company

Bloomberg: 1211 HK EQUITY | 002594 CH Equity | Reuters: 1211.HK | 002594.SZ

Refer to important disclosures at the end of this report

DBS Group Research . Equity

19 Jan 2022

## H: BUY

Last Traded Price ( 18 Jan 2022):HK\$266.00(HSI : 24,113)  
Price Target 12-mth: HK\$360 (35.3% upside)

## A: HOLD

Last Traded Price ( 18 Jan 2022):RMB266.08(CSI300 Index : 4,813)  
Price Target 12-mth: RMB299 (12.4% upside)

### Analyst

Rachel MIU +852 36684191 rachel\_miu@dbs.com

### What's New

- A comprehensive EV maker benefitting from robust domestic growth and overseas expansion potential
- Rapid broadening its vehicle portfolio to cater to wider customer base
- Capacity expansion to achieve better scale efficiency
- Maintain BUY, HK\$360 TP based on SOTP

## Exciting new models to drive 2022 outlook

### Investment Thesis

**Overcoming challenges and racing ahead of peers.** With strong R&D capabilities in DM-i technology, e3.0 platform and blade battery, BYD's self-dependent strategy in key components has also lessened the supply chain disruption on the company's operations. Leveraging on the above capabilities, BYD is increasing its overseas exposure, reaching out to more global markets for growth.

**Strong new model pipeline to support vehicle sales.** Expansion of Dynasty series to name the vehicles after ocean mammals like dolphin, seal etc and launch of a high-end brand in 1H22 should broaden BYD's vehicle offering to target younger and sophisticated car buyers. In 2022, over five new models are scheduled for launch. BYD is rapidly expanding production capacity (including key components) to support its rapid business expansion.

**Strong cashflow from vehicle sales to support business growth.** Robust vehicle sales is generating healthy cash flows to meet the requirement of capex of over Rmb20bn p.a. and working capital needs. Its ability to better manage production costs is expected to partially mitigate the high raw material costs.

### Valuation:

We applied SOTP valuation methodology and based on FY22F estimates (auto: 4.5xP/S; battery: 8x EV/EBITDA; handsets: 8x EV/EBITDA; semiconductor: 3xPBV) we arrive at a TP of HK\$360/sh (unchanged).

### Where we differ:

Our FY22/23F earnings are slightly lower than consensus due to more prudent margin assumptions especially with many new projects in the pipeline.

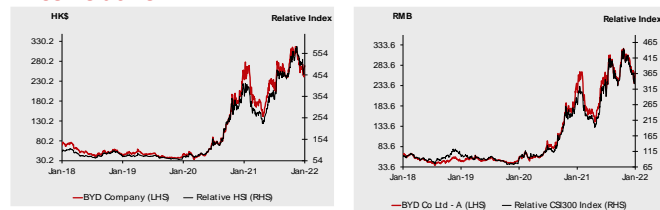
### Key Risks to Our View:

Outbreak of pandemic could hurt its factory operations. Intense NEV market competition, slowdown in demand for smartphones and photovoltaic products could also hurt earnings.

### At A Glance

Issued Capital - H shares (m shs)	1,098
- Non H shrs (m shs)	1,813
H shs as a % of Total	38
Total Mkt Cap (HK\$m/US\$m)	884,086 / 113,479
Major Shareholders (%)	
Wang (Chuanfu)	28.3
Lv (Xiangyang)	13.2
Youngy Investment Holding Group Co., Ltd.	8.6
Major H Shareholders (As % of H shares)	
Berkshire Hathaway Energy Company	20.5
H Shares-Free Float (%)	79.5
3m Avg. Daily Val. (US\$m)	250.67
GICS Industry: Consumer Discretionary / Automobiles & Components	

### Price Relative



### Forecasts and Valuation (H Shares)

FY Dec (RMBm)	2020A	2021F	2022F	2023F
Turnover	153,469	227,548	291,868	360,277
EBITDA	22,497	22,642	29,350	36,877
Pre-tax Profit	6,883	7,491	12,394	18,190
Net Profit	4,018	4,528	7,418	10,886
Net Pft (Pre Ex) (core profit)	4,018	4,528	7,418	10,886
Net Profit Gth (Pre-ex) (%)	196.2	12.7	63.8	46.8
EPS (RMB)	1.47	1.58	2.55	3.74
EPS (HK\$)	1.81	1.94	3.13	4.59
EPS Gth (%)	196.2	7.5	61.0	46.8
Diluted EPS (HK\$)	1.81	1.94	3.13	4.59
DPS (HK\$)	0.18	0.19	0.31	0.46
BV Per Share (HK\$)	25.58	41.26	43.49	47.77
PE (X)	147.4	137.2	85.2	58.0
P/Cash Flow (X)	13.0	43.8	39.0	25.0
P/Free CF (X)	15.0	nm	nm	76.4
EV/EBITDA (X)	28.3	28.4	22.6	18.1
Net Div Yield (%)	0.1	0.1	0.1	0.2
P/Book Value (X)	10.4	6.5	6.1	5.6
Net Debt/Equity (X)	0.6	0.1	0.2	0.1
ROAE (%)	7.1	5.9	7.4	10.1

Earnings Rev (%)		3	9	New
Consensus EPS (RMB)		1.61	2.68	3.98
Other Broker Recs:		B:29	S:3	H:2

Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters



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**BYD Company****WHAT'S NEW****EV portfolio expansion to ride the industry upcycle**

**Leading the pack in NEV sector.** China NEV sales jumped c.160% y-o-y to about 3.5m units in 2021. The Chinese NEV market is projected to grow at CAGR of 35% to 12m units by 2025. The robust NEV sector outlook is expected to support BYD's share price performance, given its strong fundamentals in EV development, battery technology and chip production. BYD's DM-i and e3.0 platform as well as blade battery are crucial technology advantages to accelerate the rollout of advanced vehicle models to boost sales, benefitting from the strong market outlook.

**Strong new model pipeline to support vehicle sales.** The company is expanding its range of vehicles from the Dynasty series to name the vehicles after ocean mammals like dolphin, seal etc. Besides, it has also aimed to launch a high-end brand in 1H22 to move up the value chain. This broadens its vehicle offering to target more customer groups, especially the younger and more sophisticated car buyers. In 2022, over five new models are scheduled to be introduced into the market.

Its current popular models are Qin Plus DM-i, Song Plus DM-i and Tang DM-i, which are selling well. The strong pent-up demand (over 100,000 units order) is expected to drive 2022 sales. We estimate total vehicle sales to grow at annual rate of 40% (FY21-23). In the NEV segment, NEV sales tripled in 2021 to over 600,000 units. NEV sales estimated to hit c.1.45m units in 2023 given current strong outlook.

**Leveraging on its strong product development capabilities,** BYD is increasing its overseas exposure. At present, BYD is supplying both electric passenger and commercial buses to its overseas customers. The goal is to raise the global awareness of its electric PV and it has shipped 1,000 units of Tang EV to Norway for a start. This breakthrough will enable BYD to penetrate into the other European markets.

**NEV market share gain.** BYD's strong product profile underpinned strong sales in 2021. BYD's share of the total NEV market had been trending up in 2H21 despite supply chain disruption. We believe its ability to produce critical components such as chips and vehicle batteries have helped the company mitigate the disruption impact.

**Product margins expected to stabilize.** In view of the anticipated softness in raw material prices in FY22, it should ease the margin pressure. BYD's quarterly GP margins suffered in Q1-Q3 2021 because of the sharp rise in raw material prices. The company raised its battery prices by 20% starting Nov-21 to absorb the cost pressure. We project blended GP margin to improve to 16% in FY23F, from 11% in 1H21.

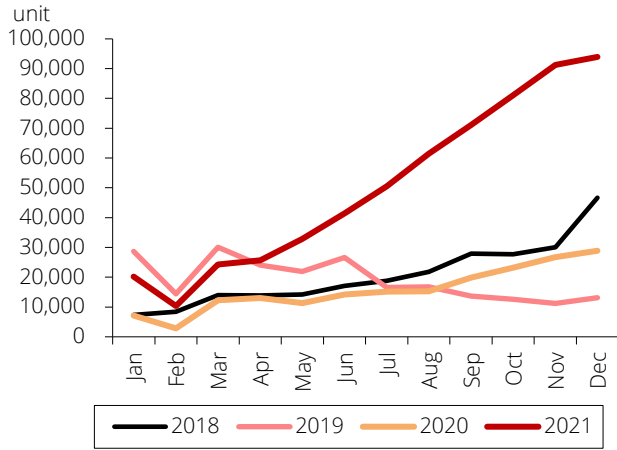
**Share price correction; accumulate on dips.** BYD share price corrected along with the auto sector on concerns of a slowing Chinese economy. However, the NEV sector's long-term outlook remains promising (especially as the country advances toward carbon neutrality). Besides, the company's monthly NEV sales has been strong, and coupled with the exciting new model pipeline, all these should support its share price performance. Our SOTP-based TP is HK\$360/sh (unchanged).

**Company Background**

BYD's main businesses include the development, manufacture, and sales of vehicles (both gasoline and new energy vehicles) and rechargeable batteries. The cars are sold under the "BYD" brand. It also provides handset and component assembly services for global/domestic mobile phone companies such as Samsung, Huawei, LG, Vivo, etc. BYD started the monorail business in 2017 and this is expected to become an important revenue contributor going forward.

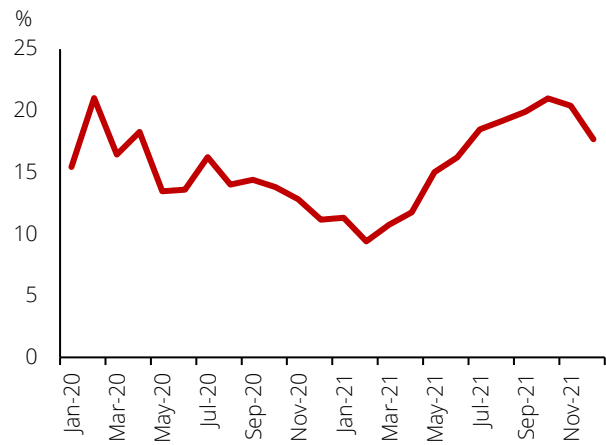
**BYD Company**

**BYD NEV monthly sales**



Source: Company

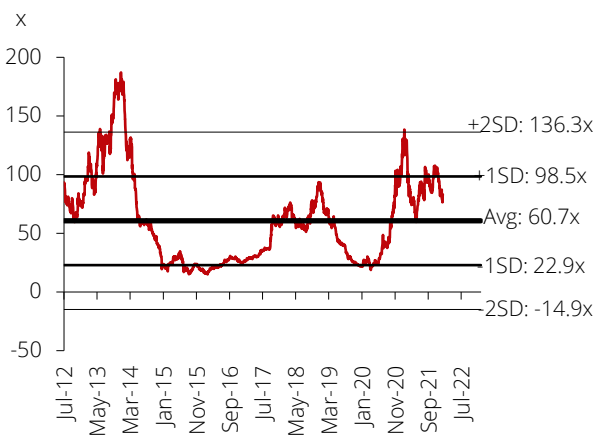
**BYD NEV market share**



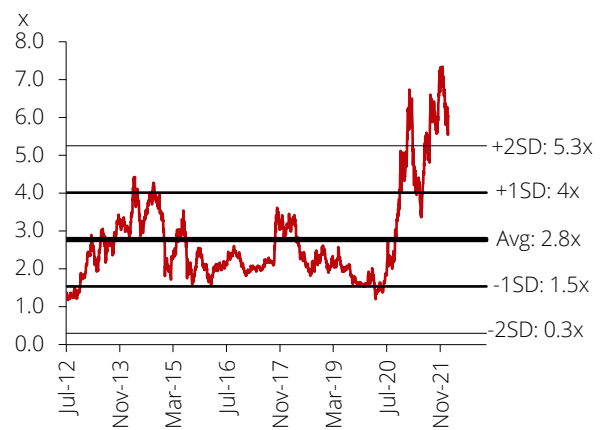
Source: Company; CEIC; DBS HK

**Historical PE and PB band**

**Forward PE band (x)**



**PB band (x)**



Source: Thomson Reuters, DBS HK

## BYD Company

### Key Assumptions

FY Dec	2019A	2020A	2021F	2022F	2023F
NEV sales ('000 units)	219.4	179.1	593.7	950.0	1,330.0
Traditional vehicle sales ('000 units)	231.9	237.3	136.3	122.7	110.4

Source: Company, DBS HK

### Segmental Breakdown (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
<b>Revenues (RMB m)</b>					
Batteries & other products	9,719	11,705	15,216	17,498	20,123
Mobile handset components	52,522	59,354	83,096	95,561	109,895
Automobile & related prodts	59,537	81,958	128,648	178,104	229,412
Others	0	452	588	705	847
<b>Total</b>	<b>121,778</b>	<b>153,469</b>	<b>227,548</b>	<b>291,868</b>	<b>360,277</b>

Source: Company, DBS HK

## BYD Company

### Income Statement (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Revenue	121,778	153,469	227,548	291,868	360,277
Cost of Goods Sold	(103,702)	(126,226)	(195,815)	(248,069)	(303,028)
<b>Gross Profit</b>	<b>18,076</b>	<b>27,244</b>	<b>31,732</b>	<b>43,800</b>	<b>57,249</b>
Other Opng (Exp)/Inc	(10,879)	(13,742)	(18,310)	(24,307)	(30,716)
<b>Operating Profit</b>	<b>7,197</b>	<b>13,501</b>	<b>13,423</b>	<b>19,493</b>	<b>26,533</b>
Other Non Opg (Exp)/Inc	(1,210)	(3,522)	(3,413)	(4,378)	(5,404)
Associates & JV Inc	(423)	(187)	(168)	(151)	(136)
Net Interest (Exp)/Inc	(3,134)	(2,909)	(2,350)	(2,570)	(2,803)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>2,431</b>	<b>6,883</b>	<b>7,491</b>	<b>12,394</b>	<b>18,190</b>
Tax	(312)	(869)	(1,086)	(1,797)	(2,637)
Minority Interest	(504)	(1,780)	(1,857)	(3,179)	(4,666)
Preference Dividend	(258)	(217)	(20)	0	0
<b>Net Profit</b>	<b>1,357</b>	<b>4,018</b>	<b>4,528</b>	<b>7,418</b>	<b>10,886</b>
Net Profit before Except.	1,357	4,018	4,528	7,418	10,886
EBITDA	15,828	22,497	22,642	29,350	36,877
<b>Growth</b>					
Revenue Gth (%)	0.0	26.0	48.3	28.3	23.4
EBITDA Gth (%)	(8.7)	42.1	0.6	29.6	25.6
Opg Profit Gth (%)	(18.3)	87.6	(0.6)	45.2	36.1
Net Profit Gth (%)	(46.6)	196.2	12.7	63.8	46.8
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	14.8	17.8	13.9	15.0	15.9
Opg Profit Margin (%)	5.9	8.8	5.9	6.7	7.4
Net Profit Margin (%)	1.1	2.6	2.0	2.5	3.0
ROAE (%)	2.4	7.1	5.9	7.4	10.1
ROA (%)	0.7	2.0	2.1	3.0	4.1
ROCE (%)	4.6	8.9	8.3	10.4	12.7
Div Payout Ratio (%)	12.1	10.0	10.0	10.0	10.0
Net Interest Cover (x)	2.3	4.6	5.7	7.6	9.5

Source: Company, DBS HK

### Interim Income Statement (RMB m)

FY Dec	1H2019	2H2019	1H2020	2H2020	1H2021
Revenue	59,215	62,563	58,028	95,441	89,131
Cost of Goods Sold	(50,034)	(53,668)	(47,553)	(78,672)	(79,210)
<b>Gross Profit</b>	<b>9,181</b>	<b>8,895</b>	<b>10,475</b>	<b>16,769</b>	<b>9,921</b>
Other Oper. (Exp)/Inc	(5,088)	(5,437)	(4,899)	(8,629)	(5,830)
<b>Operating Profit</b>	<b>4,092</b>	<b>3,459</b>	<b>5,576</b>	<b>8,140</b>	<b>4,091</b>
Other Non Opg (Exp)/Inc	(525)	(685)	(821)	(2,702)	(788)
Associates & JV Inc	(92)	(330)	(95)	(92)	(78)
Net Interest (Exp)/Inc	(1,601)	(1,886)	(1,732)	(1,392)	(1,020)
Exceptional Gain/(Loss)	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>1,874</b>	<b>557</b>	<b>2,928</b>	<b>3,955</b>	<b>2,204</b>
Tax	(225)	(87)	(545)	(324)	(393)
Minority Interest	(194)	(311)	(721)	(1,059)	(637)
<b>Net Profit</b>	<b>1,334</b>	<b>23</b>	<b>1,527</b>	<b>2,491</b>	<b>1,154</b>
Net profit bef Except.	1,334	23	1,527	2,491	1,154
<b>Growth</b>					
Revenue Gth (%)	14.1	(10.5)	(2.0)	52.6	53.6
Opg Profit Gth (%)	51.5	(43.3)	36.3	135.3	(26.6)
Net Profit Gth (%)	270.1	(99.0)	14.4	10,940.8	(24.4)
<b>Margins</b>					
Gross Margins (%)	15.5	14.2	18.1	17.6	11.1
Opg Profit Margins (%)	6.9	5.5	9.6	8.5	4.6
Net Profit Margins (%)	2.3	0.0	2.6	2.6	1.3

Source: Company, DBS HK

## BYD Company

### Balance Sheet (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Net Fixed Assets	55,296	58,202	64,603	69,652	73,347
Invt in Associates & JVs	4,060	5,466	7,297	9,146	11,010
Other LT Assets	29,319	25,745	26,711	26,428	25,984
Cash & ST Invt	12,650	14,445	29,060	26,232	31,962
Inventory	25,572	31,396	36,106	43,327	48,526
Debtors	40,135	39,308	42,453	46,698	51,368
Other Current Assets	28,610	26,456	28,345	31,245	33,631
<b>Total Assets</b>	<b>195,642</b>	<b>201,017</b>	<b>234,575</b>	<b>252,727</b>	<b>275,828</b>
ST Debt	54,062	27,645	17,645	22,645	27,645
Creditors	35,341	49,792	50,787	51,803	52,839
Other Current Liab	18,626	28,994	30,376	32,368	34,622
LT Debt	21,916	23,626	23,626	23,626	23,626
Other LT Liabilities	3,095	6,507	6,507	6,507	6,507
Shareholder's Equity	56,762	56,874	96,197	103,163	113,307
Minority Interests	5,839	7,580	9,437	12,616	17,282
<b>Total Cap. &amp; Liab.</b>	<b>195,642</b>	<b>201,017</b>	<b>234,575</b>	<b>252,727</b>	<b>275,828</b>
Non-Cash Wkg. Capital	40,349	18,374	25,740	37,099	46,063
Net Cash/(Debt)	(63,328)	(36,826)	(12,211)	(20,039)	(19,308)
Debtors Turn (avg days)	126.4	94.5	65.6	55.7	49.7
Creditors Turn (avg days)	156.6	136.6	100.2	80.1	66.5
Inventory Turn (avg days)	100.9	91.4	67.3	62.0	58.4
Asset Turnover (x)	0.6	0.8	1.0	1.2	1.4
Current Ratio (x)	1.0	1.0	1.4	1.4	1.4
Quick Ratio (x)	0.5	0.5	0.7	0.7	0.7
Net Debt/Equity (X)	1.0	0.6	0.1	0.2	0.1
Net Debt/Equity ex MI (X)	1.1	0.6	0.1	0.2	0.2
Capex to Debt (%)	12.5	11.6	41.2	36.7	33.2
Z-Score (X)	NA	NA	NA	NA	NA

Source: Company, DBS HK

### Cash Flow Statement (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Pre-Tax Profit	2,431	6,881	7,491	12,394	18,190
Dep. & Amort.	9,840	12,519	12,632	14,235	15,748
Tax Paid	(445)	(449)	(869)	(1,086)	(1,797)
Assoc. & JV Inc/(loss)	423	187	168	151	136
(Pft)/ Loss on disposal of FAs	0	0	0	0	0
Chg in Wkg.Cap.	(1,307)	21,386	(7,584)	(12,069)	(9,804)
Other Operating CF	3,799	4,870	2,350	2,570	2,803
<b>Net Operating CF</b>	<b>14,741</b>	<b>45,393</b>	<b>14,189</b>	<b>16,194</b>	<b>25,275</b>
Capital Exp.(net)	(9,528)	(5,964)	(17,000)	(17,000)	(17,000)
Other Invt.(net)	0	0	0	0	0
Invt in Assoc. & JV	(918)	(1,597)	(2,000)	(2,000)	(2,000)
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	(10,435)	(6,883)	(2,753)	(1,716)	(1,694)
<b>Net Investing CF</b>	<b>(20,881)</b>	<b>(14,444)</b>	<b>(21,753)</b>	<b>(20,716)</b>	<b>(20,694)</b>
Div Paid	(707)	(218)	(423)	(453)	(742)
Chg in Gross Debt	9,872	(27,790)	(11,075)	5,000	5,000
Capital Issues	(23)	0	36,294	0	0
Other Financing CF	(2,531)	(899)	(2,617)	(2,853)	(3,109)
<b>Net Financing CF</b>	<b>6,610</b>	<b>(28,907)</b>	<b>22,178</b>	<b>1,694</b>	<b>1,149</b>
Currency Adjustments	53	23	0	0	0
Chg in Cash	523	2,064	14,615	(2,828)	5,731
Opg CFPS (RMB)	5.88	8.80	7.61	9.71	12.05
Free CFPS (RMB)	1.91	14.45	(0.98)	(0.28)	2.84

Source: Company, DBS HK

**BYD Company**

**H Share - Target Price & Ratings History**

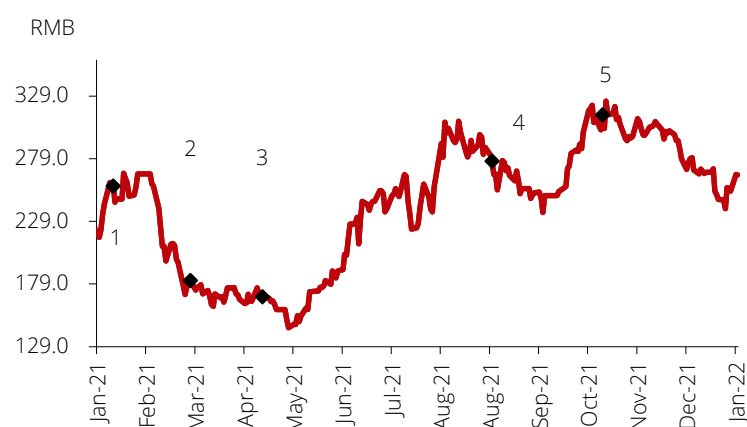


S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	27-Jan-21	HK\$261.40	HK\$280	Buy
2:	12-Mar-21	HK\$196.10	HK\$280.00	Buy
3:	22-Apr-21	HK\$177.80	HK\$280	Buy
4:	31-Aug-21	HK\$261.40	HK\$330.00	Buy
5:	2-Nov-21	HK\$287.20	HK\$360.00	Buy

Source: DBS HK

Analyst: Rachel MIU

**A Share - Target Price & Ratings History**



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	27-Jan-21	RMB254.22	RMB235	Hold
2:	12-Mar-21	RMB182.97	RMB200.00	Hold
3:	22-Apr-21	RMB168.59	RMB187	Hold
4:	31-Aug-21	RMB281.97	RMB290.00	Hold
5:	2-Nov-21	RMB302.00	RMB299.00	Hold

Source: DBS HK

Analyst: Rachel MIU

# China / Hong Kong Company Update

# Geely Automobile Holdings

Bloomberg: 175 HK EQUITY | Reuters: 0175.HK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

19 Jan 2022

## BUY

Last Traded Price (18 Jan 2022): HK\$19.24 (HSI : 24,113)  
Price Target 12-mth: HK\$29.00 (51% upside) (Prev HK\$34.00)

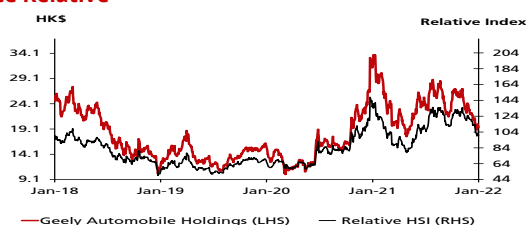
### Analyst

Rachel MIU +852 36684191 rachel\_miu@db.com

### What's New

- Robust model pipeline supportive of strong FY22F vehicle sales of >20%
- Transforming into a global auto group with expanded overseas presence; entering the smart connected car segment to speed up autonomous driving capability
- Revenue mix improvement positive on profit margins
- Maintain BUY; TP of HK\$29 pegged to 23x FY22F PE

### Price Relative



### Forecasts and Valuation

FY Dec (RMBm)	2020A	2021F	2022F	2023F
Turnover	92,114	99,891	128,210	152,752
EBITDA	11,724	12,824	17,382	20,808
Pre-tax Profit	6,441	7,768	11,752	14,551
Net Profit	5,397	6,761	10,246	12,701
Net Pft (Pre Ex) (core profit)	5,397	6,761	10,246	12,701
Net Profit Gth (Pre-ex) (%)	(34.1)	25.3	51.6	24.0
EPS (RMB)	0.56	0.69	1.05	1.30
EPS (HK\$)	0.69	0.85	1.29	1.60
EPS Gth (%)	(37.4)	22.5	51.5	24.0
Diluted EPS (HK\$)	0.69	0.85	1.29	1.60
DPS (HK\$)	0.21	0.18	0.27	0.33
BV Per Share (HK\$)	7.74	8.41	9.57	10.95
PE (X)	27.8	22.7	15.0	12.1
P/Cash Flow (X)	93.9	19.4	13.4	11.2
P/Free CF (X)	nm	39.3	20.5	17.6
EV/EBITDA (X)	11.8	11.3	8.3	6.8
Net Div Yield (%)	1.1	0.9	1.4	1.7
P/Book Value (X)	2.5	2.3	2.0	1.8
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	9.7	10.8	14.6	15.9
Earnings Rev (%)		(18)	(6)	New
Consensus EPS (RMB)		0.69	1.01	1.27
Other Broker Recs:		B:38	S:1	H:6

Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

## Looking exciting again

### Investment Thesis

**Smart connected cars on the way.** Following the launch of the Smart Geely 2025 plan, the company is leveraging on its high-end EV brand Zeekr to work with Waymo to develop a new pure EV for deployment in the Waymo One autonomous ride-hailing fleet in the US and Mobileye to speed up autonomous driving consumer vehicle development.

**Springboard into more overseas markets.** Overseas sales have been growing rapidly since 2018 (60% CAGR in FY18-21) as the company ventures into new markets. The European market is a key focus area, leveraging on the Lynk & Co brand, which appeals to the younger and tech savvy generation. Geely is growing its global presence in Kuwait and there are plans to expand into other Middle Eastern countries as well as Asia.

**Product mix improvement and new models lifting earnings outlook.** Sales of higher value vehicles are rising through the ramp up of Zeekr operations. Total vehicle sales are expected to hit 1.65m units in FY22, +24% y-o-y. Other plans include rolling out six EV models by 2023 and achieving volume sales of some 650k units by 2025. Profit margin is also expected to increase by c.3ppts from FY20 to 19.3% in FY23F.

### Valuation:

Our new TP of HK\$29 is pegged to 23x FY22F PE (previous 25x), after revising down our FY21/22F net earnings by 19%/6% respectively. The stock is currently trading at FY22F 15x PE.

### Where we differ:

Our FY22-23E net earnings ahead of consensus since the company is accelerating its NEV business via new investments into technology and products development.

### Key Risks to Our View:

Severe overcapacity and further weakness in the Chinese economy could affect the company's sales volume and profit. Deterioration in the export markets may be a drag on earnings.

### At A Glance

Issued Capital (m shrs)	10,202
Mkt Cap (HK\$/US\$m)	192,787/ 24,765
Major Shareholders (%)	
Proper Glory Holding, Inc.	26.3
Zhejiang Jirun Automobile Co., Ltd.	7.9
Free Float (%)	65.7
3m Avg. Daily Val. (US\$m)	144.72
GICS Industry: Consumer Discretionary / Automobiles & Components	



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## Geely Automobile Holdings

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### WHAT'S NEW

#### Looking forward to stronger sales

**Monthly vehicle sales picking up, implying supply chain disruption slowing.** Total vehicle sales in 2021 was quite similar to previous year's level of about 1.3m units, largely impacted by the sever supply chain disruption in 3Q21. The monthly sales trends are picking up from the trough in Aug-21 as supply chain disruption is easing (though not at full normalization yet). More importantly, strong sales of Xingrui, Xinyue L, and Lynk 03 & 06 point to a better profitability outlook since some of these are new models. The roll out of Lynk 09 SUV in Oct-21 was a timely move given demand in the Chinese SUV market has returned and should show strong growth.

Given the strong pent-up demand (with orders over 100,000 vehicles on hand), sales outlook for 1Q22 is promising. Total vehicle sales are expected to reach 1.65m units in 2022, representing 24% y-o-y growth.

**Acceleration in NEV business.** The company is growing its NEV business rapidly to take advantage of the industry upcycle. It is obvious the company is accelerating the NEV pace, from launching new models (across all the vehicle brands) to entering into numerous collaborations with global OEMs. These collaborations should give a boost to Geely's positioning in the global market.

Following the launch of Smart Geely 2025 strategy in Nov-21 where the company featured the "Leishen Power" as a leading intelligent high-efficiency powertrain solution provider, Geely is collaborating with Waymo through Zeekr brand on the development of a new pure EV for deployment in the Waymo One autonomous ride-hailing fleet in the US. Given that Zeekr is a relatively new brand in the industry, the collaboration signifies the company has gained international recognition and is fast expanding its overseas business in Europe and the US. Lately, Zeekr also announced the collaboration with Mobileye to speed up autonomous driving consumer vehicles.

Over the years, Geely and its parent have partnered with several experts like Baidu on ADAS vehicle development and RoboSense on Smart LiDAR Sensor System to speed up smart connected vehicle development.

Sales of electrified vehicles surged c.60% y-o-y in 2021 to 104k units, after a challenging 2020. We anticipate 2022 sales to see stronger momentum to test the 200,000 unit mark.

**Penetration into global markets.** Overseas sales have been growing rapidly since 2018 as the company is venturing into more new markets. The European market is a key focus, leveraging on the Lynk & Co brand, which appeals to the younger and tech savvy generation. Geely had shipped over 10,000 Lynk vehicles to Europe in 2021.

Recently, Geely is growing its global presence in Kuwait and there are plans to expand into other Middle Eastern countries as well as Asia.

**Lowered target TP on lower earnings assumptions.** Due to the supply chain disruption impact on its scheduled vehicle shipments, we lowered FY21/22 net earnings by 19%/6% respectively. Subsequently, we lowered our TP to HK\$29, pegged to 23x FY22F PE (previous 28x). We lowered our target price-earnings multiples also partly because the overall auto sector valuation has been affected due to a weak stock market performance and concerns of a slowing Chinese economy. The stock is trading on a 15x FY22F PE.

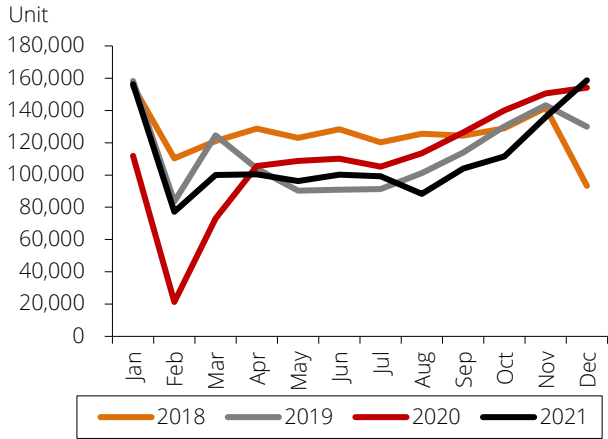
#### Company Background

Geely Automobile Holdings Limited (Geely), through its subsidiaries, manufactures and sells automobiles and related components under the Geely and Lynk brands. To broaden its new energy vehicle (NEV) product offerings, Geely introduced the Geometry brand in 2019.



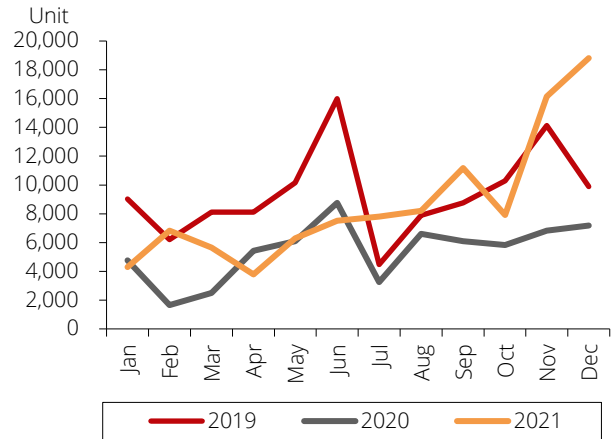
**Geely Automobile Holdings**

**Geely total vehicle monthly sales**



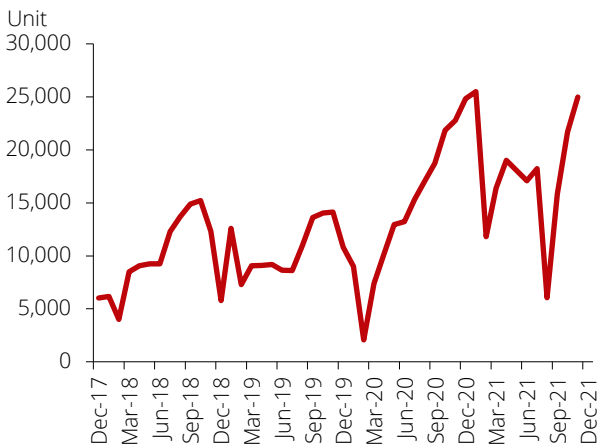
Source: Company

**Geely NEEV monthly sales**



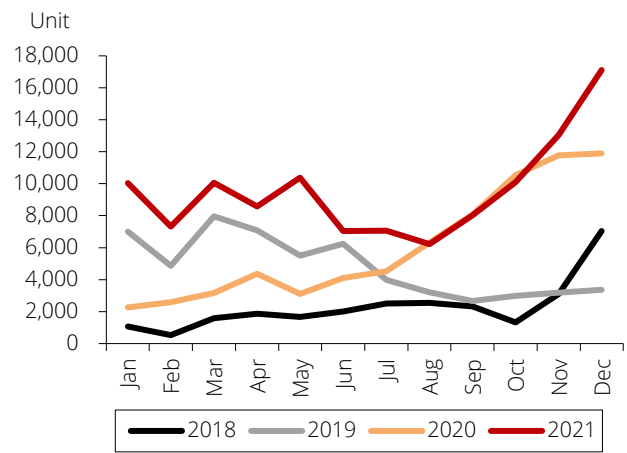
Source: Company

**Lynk monthly vehicle sales**



Source: Company

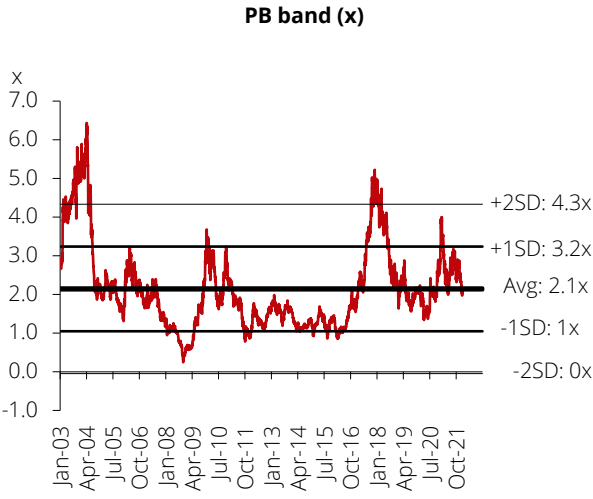
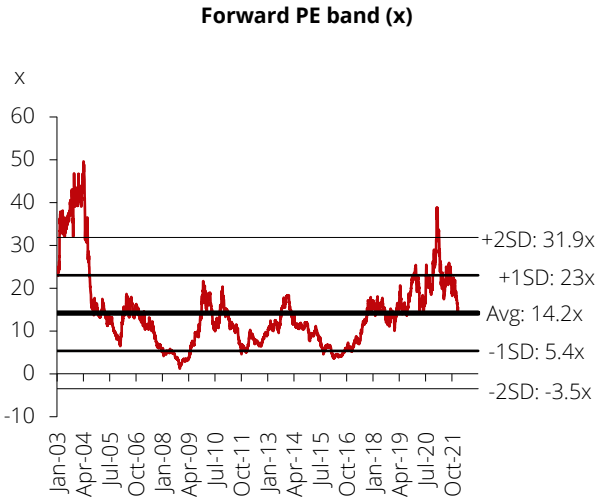
**Geely vehicle export monthly sales**



Source: Company

### Geely Automobile Holdings

#### Historical PE and PB band



Source: Thomson Reuters, DBS HK

## Geely Automobile Holdings

### Key Assumptions

FY Dec	2019A	2020A	2021F	2022F	2023F
Car sales ('000 units)	1,233.5	1,144.8	1,107.5	1,329.0	1,488.5
Blended ASP (RMB/unit)	74,457.0	73,216.0	78,341.1	83,041.6	87,193.7

Source: Company, DBS HK

### Segmental Breakdown (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
<b>Revenues (RMB m)</b>					
Auto mobile sales	91,843	83,814	86,764	110,364	129,788
Parts & components	5,130	6,989	11,182	15,654	20,351
Licensing of IP	428	566	902	940	986
Others	N/A	745	1,043	1,252	1,627
<b>Total</b>	<b>97,401</b>	<b>92,114</b>	<b>99,891</b>	<b>128,210</b>	<b>152,752</b>

Source: Company, DBS HK

### Income Statement (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Revenue	97,401	92,114	99,891	128,210	152,752
Cost of Goods Sold	(80,485)	(77,377)	(82,410)	(104,491)	(123,729)
<b>Gross Profit</b>	<b>16,917</b>	<b>14,737</b>	<b>17,481</b>	<b>23,719</b>	<b>29,023</b>
Other Opng (Exp)/Inc	(8,052)	(9,380)	(11,353)	(13,780)	(16,503)
<b>Operating Profit</b>	<b>8,864</b>	<b>5,357</b>	<b>6,128</b>	<b>9,939</b>	<b>12,519</b>
Other Non Opng (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	664	875	1,458	1,674	1,922
Net Interest (Exp)/Inc	108	208	182	140	110
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>9,636</b>	<b>6,441</b>	<b>7,768</b>	<b>11,752</b>	<b>14,551</b>
Tax	(1,375)	(866)	(820)	(1,310)	(1,642)
Minority Interest	(72)	(41)	(49)	(59)	(71)
Preference Dividend	0	(137)	(137)	(137)	(137)
<b>Net Profit</b>	<b>8,190</b>	<b>5,397</b>	<b>6,761</b>	<b>10,246</b>	<b>12,701</b>
Net Profit before Except.	8,190	5,397	6,761	10,246	12,701
EBITDA	13,261	11,724	12,824	17,382	20,808
<b>Growth</b>					
Revenue Gth (%)	(8.6)	(5.4)	8.4	28.4	19.1
EBITDA Gth (%)	(23.3)	(11.6)	9.4	35.5	19.7
Opg Profit Gth (%)	(38.6)	(39.6)	14.4	62.2	26.0
Net Profit Gth (%)	(34.8)	(34.1)	25.3	51.5	24.0
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	17.4	16.0	17.5	18.5	19.0
Opg Profit Margin (%)	9.1	5.8	6.1	7.8	8.2
Net Profit Margin (%)	8.4	5.9	6.8	8.0	8.3
ROAE (%)	17.1	9.7	10.8	14.6	15.9
ROA (%)	8.2	4.9	5.9	8.3	9.5
ROCE (%)	14.0	7.2	7.6	11.0	12.2
Div Payout Ratio (%)	25.1	30.3	20.4	20.3	20.2
Net Interest Cover (x)	NM	NM	NM	NM	NM

Source: Company, DBS HK

## Geely Automobile Holdings

### Interim Income Statement (RMB m)

FY Dec	1H2019	2H2019	1H2020	2H2020	1H2021
Revenue	47,559	49,843	36,820	55,294	45,032
Cost of Goods Sold	(39,090)	(41,395)	(30,518)	(46,859)	(37,273)
<b>Gross Profit</b>	<b>8,469</b>	<b>8,448</b>	<b>6,302</b>	<b>8,435</b>	<b>7,759</b>
Other Oper. (Exp)/Inc	(4,102)	(3,951)	(4,196)	(5,184)	(5,645)
<b>Operating Profit</b>	<b>4,367</b>	<b>4,497</b>	<b>2,106</b>	<b>3,251</b>	<b>2,114</b>
Other Non Opg (Exp)/Inc	0	0	0	0	1
Associates & JV Inc	349	315	446	430	706
Net Interest (Exp)/Inc	49	59	89	120	101
Exceptional Gain/(Loss)	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>4,765</b>	<b>4,872</b>	<b>2,640</b>	<b>3,801</b>	<b>2,923</b>
Tax	(718)	(657)	(320)	(546)	(512)
Minority Interest	(38)	(34)	(23)	(18)	(28)
<b>Net Profit</b>	<b>4,009</b>	<b>4,180</b>	<b>2,297</b>	<b>3,237</b>	<b>2,381</b>
Net profit bef Except.	4,009	4,180	2,298	3,238	2,385
<b>Growth</b>					
Revenue Gth (%)	(11.5)	(5.8)	(22.6)	10.9	22.3
Opg Profit Gth (%)	(43.4)	(33.0)	(51.8)	(27.7)	0.4
Net Profit Gth (%)	(39.9)	(28.9)	(42.7)	(22.6)	3.7
<b>Margins</b>					
Gross Margins (%)	17.8	16.9	17.1	15.3	17.2
Opg Profit Margins (%)	9.2	9.0	5.7	5.9	4.7
Net Profit Margins (%)	8.4	8.4	6.2	5.9	5.3

Source: Company, DBS HK

## Geely Automobile Holdings

### Balance Sheet (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Net Fixed Assets	27,070	26,574	28,889	31,027	33,959
Invt in Associates & JVs	8,837	9,689	11,146	12,820	14,742
Other LT Assets	22,006	23,618	25,065	26,158	26,859
Cash & ST Invt	19,322	19,151	17,393	19,417	21,971
Inventory	4,821	3,691	4,429	5,093	5,857
Debtors	19,764	24,557	26,796	29,702	32,932
Other Current Assets	6,108	3,536	3,702	3,876	4,058
<b>Total Assets</b>	<b>107,928</b>	<b>110,816</b>	<b>117,421</b>	<b>128,091</b>	<b>140,377</b>
ST Debt	0	0	0	0	0
Creditors	31,525	29,861	30,159	30,461	30,765
Other Current Liab	17,002	12,026	12,223	12,729	13,078
LT Debt	4,149	3,909	4,709	5,509	6,309
Other LT Liabilities	327	806	806	806	806
Shareholder's Equity	54,436	63,631	68,892	77,896	88,658
Minority Interests	489	582	631	690	761
<b>Total Cap. &amp; Liab.</b>	<b>107,928</b>	<b>110,816</b>	<b>117,421</b>	<b>128,091</b>	<b>140,377</b>
Non-Cash Wkg. Capital	(17,834)	(10,103)	(7,455)	(4,519)	(996)
Net Cash/(Debt)	15,172	15,242	12,684	13,908	15,662
Debtors Turn (avg days)	70.9	87.8	93.8	80.4	74.8
Creditors Turn (avg days)	134.9	155.8	141.9	112.1	95.2
Inventory Turn (avg days)	21.2	21.6	19.2	17.6	17.0
Asset Turnover (x)	1.0	0.8	0.9	1.0	1.1
Current Ratio (x)	1.0	1.2	1.2	1.3	1.5
Quick Ratio (x)	0.8	1.0	1.0	1.1	1.3
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	69.2	71.8	84.9	72.6	79.2
Z-Score (X)	3.2	3.2	3.4	3.4	3.4

Source: Company, DBS HK

### Cash Flow Statement (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Pre-Tax Profit	9,636	6,441	7,768	11,752	14,551
Dep. & Amort.	3,733	5,491	5,238	5,771	6,368
Tax Paid	(1,949)	(1,371)	(866)	(820)	(1,310)
Assoc. & JV Inc/(loss)	(664)	(875)	(1,458)	(1,674)	(1,922)
(Pft)/ Loss on disposal of FAs	0	0	0	0	0
Chg in Wkg.Cap.	1,977	(9,784)	(2,602)	(3,426)	(3,855)
Other Operating CF	(195)	1,695	(182)	(141)	(111)
<b>Net Operating CF</b>	<b>12,538</b>	<b>1,597</b>	<b>7,897</b>	<b>11,463</b>	<b>13,721</b>
Capital Exp.(net)	(2,873)	(2,807)	(4,000)	(4,000)	(5,000)
Other Invt.(net)	(1,589)	819	0	0	0
Invt in Assoc. & JV	0	0	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	(6,330)	(3,443)	(4,639)	(4,656)	(4,654)
<b>Net Investing CF</b>	<b>(10,791)</b>	<b>(5,430)</b>	<b>(8,639)</b>	<b>(8,656)</b>	<b>(9,654)</b>
Div Paid	(2,806)	(2,058)	(1,637)	(1,380)	(2,077)
Chg in Gross Debt	688	800	800	800	800
Capital Issues	639	5,838	0	0	0
Other Financing CF	3,242	(819)	(179)	(204)	(236)
<b>Net Financing CF</b>	<b>1,763</b>	<b>3,761</b>	<b>(1,016)</b>	<b>(784)</b>	<b>(1,513)</b>
Currency Adjustments	34	(232)	0	0	0
Chg in Cash	3,544	(304)	(1,758)	2,023	2,554
Opg CFPS (RMB)	1.16	1.19	1.08	1.52	1.80
Free CFPS (RMB)	1.06	(0.13)	0.40	0.76	0.89

Source: Company, DBS HK

## Geely Automobile Holdings

### Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	27-Jan-21	HK\$33.40	HK\$30.00	Buy
2:	25-Feb-21	HK\$25.90	HK\$35.00	Buy
3:	24-Mar-21	HK\$19.90	HK\$30.00	Buy
4:	7-Jul-21	HK\$24.05	HK\$30.00	Buy
5:	19-Aug-21	HK\$26.25	HK\$34.00	Buy
6:	11-Nov-21	HK\$25.85	HK\$34.00	Buy

Source: DBS HK

Analyst: Rachel MIU

# China / Hong Kong Company Update

## Great Wall Motor

Bloomberg: 2333 HK EQUITY | 601633 CH Equity | Reuters: 2333.HK | 601633.SS

Refer to important disclosures at the end of this report

DBS Group Research . Equity

19 Jan 2022

### H: BUY

Last Traded Price ( 18 Jan 2022): HK\$25.35 (HSI : 24,113)  
Price Target 12-mth: HK\$38.00 (49.9% upside) (Prev HK\$43.0)

### A: HOLD

Last Traded Price ( 18 Jan 2022): RMB45.84 (CSI300 Index: 4,813)  
Price Target 12-mth: RMB49.00 (6.9% upside) (Prev RMB70.0)

#### Analyst

Rachel MIU +852 36684191 rachel\_miu@dbs.com

#### What's New

- Focusing on product, pricing, and technology to grow future revenue and profits
- Project volume sales CAGR of c.20% (FY21-23) driven by robust development plans
- Venturing new overseas market; export sales ratio could reach mid-teens in medium term
- BUY maintained; HK\$38 pegged to 25x FY22F PE

### Standing strong against headwinds

#### Investment Thesis

**PPT strategy driving future revenue and profitability.** Great Wall Motor's (GWM) product, pricing, and technology (PPT) strategy is expected to place the company in a strong position as the country transits to be a dominant NEV market globally. Advanced pure electric and hybrid vehicles (to address range anxiety) are being rolled out into the market under its various brands. The latest transmission systems (3.0T+9 AT) are installed in its larger vehicles to meet the carbon reduction requirement. Despite high metal prices, GWM is pricing its new vehicles within a competitive ASP range to attract new car buyers.

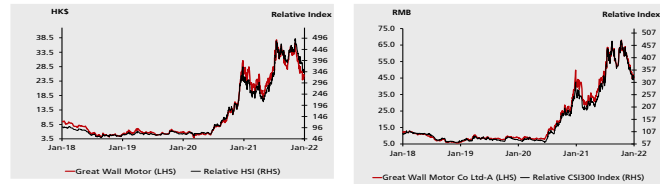
**Mitigating supply chain disruption impact.** GWM managed to report 15% vehicle sales growth in FY21 despite supply chain disruptions. The company is working with certain local auto chip producers to support its advanced vehicle business. We estimate volume sales to achieve CAGR of c.20% during FY21-23 to reach c.2m unit sales by 2023.

**Solid financial position.** It has net cash of Rmb6bn as of Jun-21. The strong profit and cashflows will support GWM future business growth as well as pay higher dividends to shareholders.

#### Valuation:

Our new TP of HK\$38 is pegged to 25x FY22F PE, 2SD above its mean (previous 28x FY22F). The stock is trading at a 16x FY22F PE.

#### Price Relative



#### Forecasts and Valuation (H Shares)

FY Dec (RMBm)	2020A	2021F	2022F	2023F
Turnover	103,308	137,015	179,736	223,715
EBITDA	11,502	13,637	17,774	22,186
Pre-tax Profit	6,227	9,338	13,690	17,804
Net Profit	5,362	7,938	11,636	15,133
Net Pft (Pre Ex) (core profit)	5,362	7,938	11,636	15,133
Net Profit Gth (Pre-ex) (%)	19.2	48.0	46.6	30.1
EPS (RMB)	0.59	0.87	1.27	1.66
EPS (HK\$)	0.72	1.07	1.56	2.03
EPS Gth (%)	19.2	48.0	46.6	30.1
Diluted EPS (HK\$)	0.72	1.06	1.56	2.02
DPS (HK\$)	0.35	0.51	0.77	1.02
BV Per Share (HK\$)	7.71	8.43	9.48	10.75
PE (X)	35.2	23.8	16.2	12.5
P/Cash Flow (X)	36.4	11.3	15.4	12.4
P/Free CF (X)	nm	24.4	83.2	35.8
EV/EBITDA (X)	16.8	13.8	10.6	8.5
Net Div Yield (%)	1.4	2.0	3.0	4.0
P/Book Value (X)	3.3	3.0	2.7	2.4
Net Debt/Equity (X)	0.1	CASH	0.0	0.0
ROAE (%)	9.6	13.2	17.5	20.1

Earnings Rev (%): (8) (1) New  
Consensus EPS (RMB) 0.82 1.25 1.63  
Other Broker Recs: B:33 S:3 H:3

Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

#### Where we differ:

Our FY22/23 net earnings estimates are slightly ahead of consensus given its robust NEV strategy to support earnings expansion.

#### Key Risks to Our View:

Erosion in market share, rising competition, and margin compression due to raw material cost pressure.

#### At A Glance

Issued Capital - H shares (m shs)	3,100
- Non H shrs (m shs)	6,100
H shs as a % of Total	34
Total Mkt Cap (HK\$m/US\$m)	421,518 / 54,096
Major Shareholders (%)	
Baoding Innovation Great Wall Asset Mgt	83.4
Major H Shareholders (As % of H shares)	
Harvest Fund Management Co., Ltd.	5.7
Schroder Investment Management Ltd. (SIM)	5.0
E Fund Management Co. Ltd.	5.0
H Shares-Free Float (%)	84.3
3m Avg. Daily Val. (US\$m)	88.28
GICS Industry: Consumer Discretionary / Automobiles & Components	



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## Great Wall Motor

### WHAT'S NEW

#### Closer to achieving 2025 NEV targets

Great Wall Motor (GWM) has laid down a comprehensive development plan as the Chinese auto market is fast moving into vehicle electrification. Basically, the company's plans cover products, markets, and pricing to grow its operations.

**Rolling out new vehicle models covering ICE, EV, Hybrid technology.** Under its Lemon DHT technology platform, GWM plans to have five hybrid models to ride on the domestic market plug-in hybrid fever. GWM is targeting a niche segment with attractive pricing strategy in the Rmb150-200k range to draw new NEV buyers. In the EV segment, GWM is planning to launch around three new models under its ORA brand in 2022 to enhance sales. In 2021, ORA achieved volume sales growth of c.150% y-o-y, attributable to a strong domestic NEV market as well as new model launches.

Several new models under the WEY brand are scheduled for sale in 2022. This high-end brand will offer MPV, SUV and Latte DHT PHEV in 2022. Due to shortage of chip supply, sales of WEY brand vehicles fell c.10% y-o-y in 2021. We expect 2022 to post a better performance on new models and improving supply of critical auto parts.

GWM has developed its most advanced engine and transmissions system, which is installed in its latest TANK 500 model. This offers consumers larger engine capacity (maximum 3.0L) which is fuel-efficient. This is critical under China's vehicle carbon reduction policy

Besides technology and pricing strategy, the company is also broadening its vehicle range to cater to a wider group of end-users. In the recent years, the company has launched several new products such as the off-road SUV TANK and has generated encouraging sales numbers. In 2021, sales of TANK 300 exceeded 84,000 units and the latest TANK 500 model is expected to record strong sales as well, given the positive response upon launch in Nov-21.

Despite commodity inflation and chip shortage, GWM has managed to produce a decent set of 3Q21 earnings and GP margins were relatively stable compared to 2Q21. This is largely attributable to favourable product and revenue mix. The planned new models in the coming quarters are expected to be positive on profitability.

**The future is in hydrogen technology.** Since 2018, GWM has embarked on hydrogen technology development and recently, it unveiled the latest 200kW fuel cell battery system. There are plans to further invest approximately Rmb3bn to bring production to 10,000 sets annually.

All the above are expected to bring the company one-step closer to meeting its 2025 target and transforming it into a major NEV company under its massive Rmb100bn investment plan.

**Export sales another growth driver.** Export ratio hit 11% of total sales in FY21, up from c.6% in FY20. We anticipate the export ratio to exceed 15% in coming few years as the company is adding new production locations in Asia and Europe to ride on the global automobile recovery. GWM also plans to invest some 2bn euros in Germany to set up a battery factory (cell and battery pack) as part of its broader scheme to penetrate the European auto market.

Hence, we estimate total vehicle sales to achieve CAGR of 20% (FY21-23) based on the above measures which the company has implemented.

**Share price correction along with broad market.** Our new TP is HK\$38, pegged to 25x PE (FY22F) vs 28 previously, benchmark to 2SD above mean. We lowered our target price-earnings multiples because the overall auto sector valuation has been affected due to a weak stock market performance and concerns of a slowing Chinese economy. The stock is trading at a 16x FY22F PE.

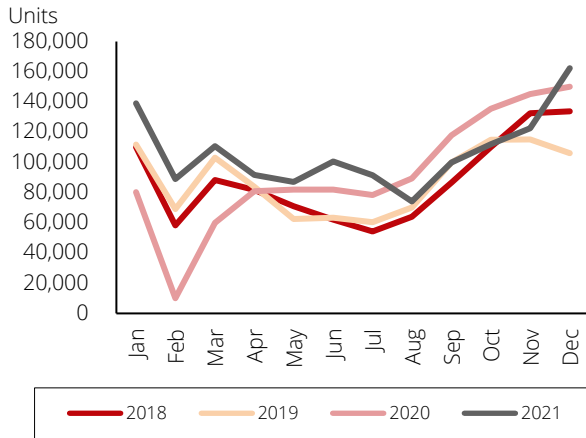
#### Company Background

Great Wall Motor (GWM) is one of the largest Sport Utility Vehicle (SUV) producers in China, with a market share of 9% in 2019. GWM develops its vehicles (SUVs, sedans, pickup trucks and NEVs) under the Haval, WEY, Great Wall Pick-up, and ORA brands. Besides the domestic market, the company also exports overseas, which accounted for about 6.3% of total volume sales in 2020 and surged to 9.1% by 1Q21. The company has assembly operations in Russia, Ecuador, Malaysia, Thailand and Tunisia.



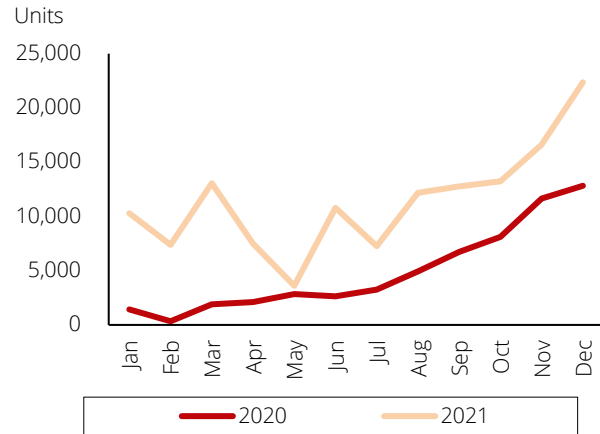
**Great Wall Motor**

**Great Wall Motor total vehicle monthly sales**



Source: Company

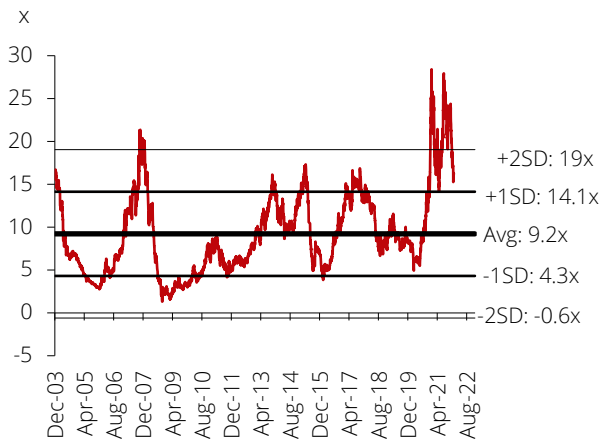
**Great Wall Motor NEV monthly sales**



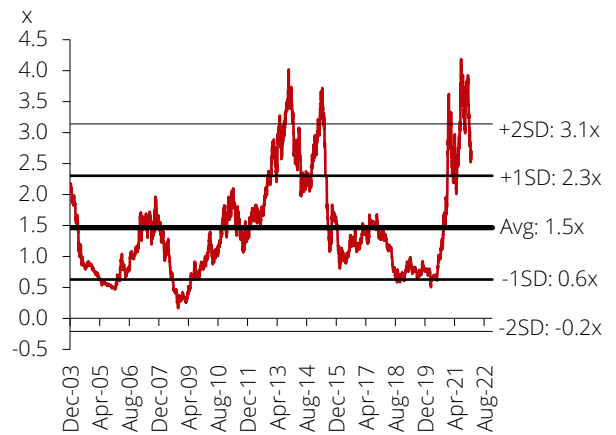
Source: Company, DBS HK

**Historical PE and PB band**

**Forward PE band (x)**



**PB band (x)**



Source: Thomson Reuters, DBS HK

## Great Wall Motor

### Key Assumptions

FY Dec	2019A	2020A	2021F	2022F	2023F
Total vehicles sales ('000 units)	1,060.3	1,115.9	1,297.2	1,619.4	1,941.5
Pick-up trucks	148.8	228.7	233.0	251.6	276.8
SUV	869.5	829.0	842.7	1,011.2	1,162.9
NEV	38.9	58.2	137.0	246.5	369.8
TANK	3.1	58.2	137.0	246.5	369.8

Source: Company, DBS HK

### Segmental Breakdown (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
<b>Revenues (RMB m)</b>					
Sales of automobile vehicles	86,251	92,386	122,073	160,910	200,894
Sales of parts and components	4,293	5,141	7,197	9,357	11,228
Others	5,667	5,781	7,745	9,469	11,593
<b>Total</b>	<b>96,211</b>	<b>103,308</b>	<b>137,015</b>	<b>179,736</b>	<b>223,715</b>

Source: Company, DBS HK

### Income Statement (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Revenue	96,211	103,308	137,015	179,736	223,715
Cost of Goods Sold	(79,684)	(85,531)	(112,608)	(146,398)	(181,420)
<b>Gross Profit</b>	<b>16,526</b>	<b>17,777</b>	<b>24,408</b>	<b>33,338</b>	<b>42,295</b>
Other Opng (Exp)/Inc	(12,080)	(12,064)	(16,343)	(21,025)	(25,879)
<b>Operating Profit</b>	<b>4,446</b>	<b>5,712</b>	<b>8,065</b>	<b>12,313</b>	<b>16,417</b>
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	304	912	958	1,034	1,086
Net Interest (Exp)/Inc	351	(397)	316	342	302
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>5,101</b>	<b>6,227</b>	<b>9,338</b>	<b>13,690</b>	<b>17,804</b>
Tax	(570)	(865)	(1,401)	(2,053)	(2,671)
Minority Interest	(34)	0	0	0	0
Preference Dividend	0	0	0	0	0
<b>Net Profit</b>	<b>4,497</b>	<b>5,362</b>	<b>7,938</b>	<b>11,636</b>	<b>15,133</b>
Net Profit before Except.	4,497	5,362	7,938	11,636	15,133
EBITDA	9,374	11,502	13,637	17,774	22,186
<b>Growth</b>					
Revenue Gth (%)	(3.0)	7.4	32.6	31.2	24.5
EBITDA Gth (%)	(8.5)	22.7	18.6	30.3	24.8
Opg Profit Gth (%)	(30.0)	28.5	41.2	52.7	33.3
Net Profit Gth (%)	(13.6)	19.2	48.0	46.6	30.1
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	17.2	17.2	17.8	18.5	18.9
Opg Profit Margin (%)	4.6	5.5	5.9	6.9	7.3
Net Profit Margin (%)	4.7	5.2	5.8	6.5	6.8
ROAE (%)	8.4	9.6	13.2	17.5	20.1
ROA (%)	4.0	4.0	5.0	6.9	8.3
ROCE (%)	6.1	7.0	8.3	11.8	14.3
Div Payout Ratio (%)	50.7	48.0	48.0	49.0	50.0
Net Interest Cover (x)	NM	14.4	NM	NM	NM

Source: Company, DBS HK

## Great Wall Motor

### Interim Income Statement (RMB m)

FY Dec	1H2019	2H2019	1H2020	2H2020	1H2021
Revenue	41,377	54,834	35,929	67,378	61,928
Cost of Goods Sold	(35,130)	(44,554)	(30,642)	(54,889)	(51,864)
<b>Gross Profit</b>	<b>6,246</b>	<b>10,280</b>	<b>5,288</b>	<b>12,489</b>	<b>10,064</b>
Other Oper. (Exp)/Inc	(4,541)	(7,539)	(4,310)	(7,754)	(7,079)
<b>Operating Profit</b>	<b>1,705</b>	<b>2,740</b>	<b>978</b>	<b>4,735</b>	<b>2,985</b>
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	0	304	496	416	644
Net Interest (Exp)/Inc	199	152	(155)	(242)	306
Exceptional Gain/(Loss)	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>1,905</b>	<b>3,196</b>	<b>1,318</b>	<b>4,909</b>	<b>3,936</b>
Tax	(354)	(216)	(172)	(693)	(407)
Minority Interest	(34)	0	0	0	0
<b>Net Profit</b>	<b>1,517</b>	<b>2,980</b>	<b>1,146</b>	<b>4,216</b>	<b>3,529</b>
Net profit bef Except.	1,517	2,980	1,146	4,216	3,529
<b>Growth</b>					
Revenue Gth (%)	(15.0)	8.5	(13.2)	22.9	72.4
Opg Profit Gth (%)	(64.0)	69.6	(42.7)	72.8	205.4
Net Profit Gth (%)	(58.9)	97.1	(24.5)	41.5	207.9
<b>Margins</b>					
Gross Margins (%)	15.1	18.7	14.7	18.5	16.3
Opg Profit Margins (%)	4.1	5.0	2.7	7.0	4.8
Net Profit Margins (%)	3.7	5.4	3.2	6.3	5.7

Source: Company, DBS HK

## Great Wall Motor

## Balance Sheet (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Net Fixed Assets	29,743	28,609	28,816	29,363	36,661
Invt in Associates & JVs	3,113	8,415	9,373	10,407	11,493
Other LT Assets	11,738	17,588	21,766	26,793	24,811
Cash & ST Invt	9,723	14,588	17,981	18,583	16,264
Inventory	6,237	7,498	8,247	9,485	10,907
Debtors	3,193	3,936	4,330	4,849	5,431
Other Current Assets	49,348	73,377	70,785	75,881	81,637
<b>Total Assets</b>	<b>113,096</b>	<b>154,011</b>	<b>161,298</b>	<b>175,361</b>	<b>187,204</b>
ST Debt	1,180	7,901	5,901	7,901	5,901
Creditors	25,440	33,185	34,844	36,587	38,416
Other Current Liab	27,980	40,079	42,343	44,837	47,419
LT Debt	1,206	10,777	10,777	10,777	10,777
Other LT Liabilities	2,892	4,727	4,727	4,727	4,727
Shareholder's Equity	54,399	57,342	62,706	70,532	79,963
Minority Interests	0	0	0	0	0
<b>Total Cap. &amp; Liab.</b>	<b>113,096</b>	<b>154,011</b>	<b>161,298</b>	<b>175,361</b>	<b>187,204</b>
Non-Cash Wkg. Capital	5,360	11,546	6,175	8,791	12,140
Net Cash/(Debt)	7,337	(4,090)	1,303	(96)	(415)
Debtors Turn (avg days)	12.4	12.6	11.0	9.3	8.4
Creditors Turn (avg days)	123.1	132.7	115.0	91.8	77.4
Inventory Turn (avg days)	26.0	31.1	26.6	22.8	21.1
Asset Turnover (x)	0.9	0.8	0.9	1.1	1.2
Current Ratio (x)	1.3	1.2	1.2	1.2	1.2
Quick Ratio (x)	0.2	0.2	0.3	0.3	0.2
Net Debt/Equity (X)	CASH	0.1	CASH	0.0	0.0
Net Debt/Equity ex MI (X)	CASH	0.1	CASH	0.0	0.0
Capex to Debt (%)	284.4	43.2	54.0	53.5	60.0
Z-Score (X)	NA	NA	NA	NA	NA

Source: Company, DBS HK

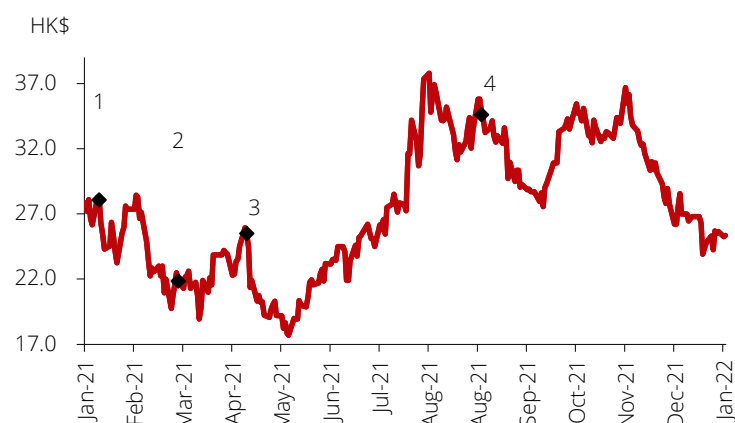
## Cash Flow Statement (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Pre-Tax Profit	5,101	6,227	9,338	13,690	17,804
Dep. & Amort.	4,624	4,878	4,615	4,426	4,684
Tax Paid	(1,229)	(570)	(865)	(1,401)	(2,053)
Assoc. & JV Inc/(loss)	0	(912)	(958)	(1,034)	(1,086)
(Pft)/ Loss on disposal of FAs	0	0	0	0	0
Chg in Wkg.Cap.	8,256	(2,818)	4,835	(3,269)	(3,966)
Other Operating CF	(2,779)	(1,625)	(216)	(142)	(102)
<b>Net Operating CF</b>	<b>13,972</b>	<b>5,181</b>	<b>16,750</b>	<b>12,270</b>	<b>15,281</b>
Capital Exp.(net)	(6,785)	(8,062)	(9,000)	(10,000)	(10,000)
Other Invt.(net)	0	0	0	0	0
Invt in Assoc. & JV	(8,482)	(5,175)	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	411	2,645	1,624	1,590	1,554
<b>Net Investing CF</b>	<b>(14,856)</b>	<b>(10,591)</b>	<b>(7,376)</b>	<b>(8,410)</b>	<b>(8,446)</b>
Div Paid	(2,830)	(2,282)	(2,574)	(3,810)	(5,702)
Chg in Gross Debt	6,686	14,817	(2,000)	2,000	(2,000)
Capital Issues	0	215	0	0	0
Other Financing CF	88	(1,383)	(411)	(451)	(456)
<b>Net Financing CF</b>	<b>3,944</b>	<b>11,368</b>	<b>(4,985)</b>	<b>(2,261)</b>	<b>(8,158)</b>
Currency Adjustments	48	(146)	0	0	0
Chg in Cash	3,109	5,811	4,390	1,599	(1,322)
Opg CFPS (RMB)	0.63	0.88	1.31	1.70	2.11
Free CFPS (RMB)	0.79	(0.32)	0.85	0.25	0.58

Source: Company, DBS HK

**Great Wall Motor**

**H Share - Target Price & Ratings History**

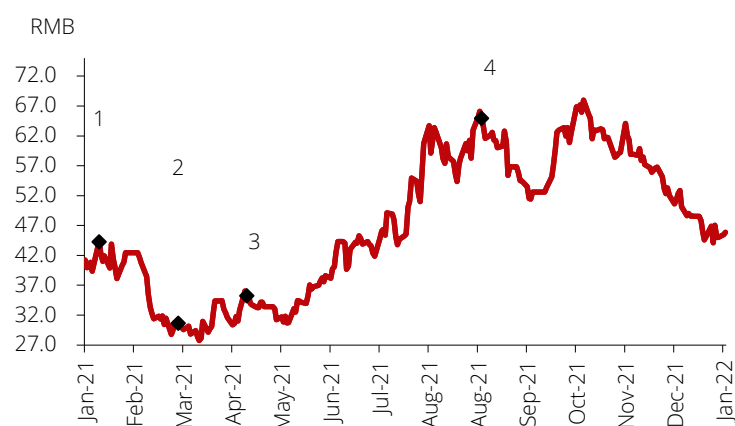


S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	26-Jan-21	HK\$28.30	HK\$29.00	Buy
2:	12-Mar-21	HK\$22.50	HK\$29.00	Buy
3:	20-Apr-21	HK\$25.50	HK\$31.30	Buy
4:	1-Sep-21	HK\$34.60	HK\$43.00	Buy

Source: DBS HK

Analyst: Rachel MIU

**A Share - Target Price & Ratings History**



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	26-Jan-21	RMB43.31	RMB40.00	Hold
2:	12-Mar-21	RMB30.88	RMB34.00	Hold
3:	20-Apr-21	RMB35.19	RMB38.60	Hold
4:	1-Sep-21	RMB64.92	RMB70.00	Hold

Source: DBS HK

Analyst: Rachel MIU

# Guangzhou Automobile Group

Bloomberg: 2238 HK Equity | 601238 CH Equity | Reuters: 2238.HK | 601238.SS

Refer to important disclosures at the end of this report

DBS Group Research . Equity

19 Jan 2022

## H: BUY

Last Traded Price ( 18 Jan 2022):HK\$8.28(HSI : 24,113)

Price Target 12-mth: HK\$9.80 (18.4% upside)

## A: HOLD

Last Traded Price ( 18 Jan 2022):RMB15.06(CSI300 Index : 4,813)

Price Target 12-mth: RMB16.00 (6.2% upside) (Prev RMB19.4)

### Analyst

Rachel MIU +852 36684191 rachel\_miu@dbs.com

### What's New

- Comprehensive EV strategy to drive future growth; NEV proxy at cheap valuation
- Turnaround in self-brand business on the horizon
- Softening raw material prices and improving chip supply supportive of JVs operations which form bulk of earnings
- Maintain BUY; HK\$9.80 TP pegged to 9x FY22F PE

## Racing ahead on EV strategy

### Investment Thesis

**Beefing up self-brand EV capabilities.** Guangzhou Auto (GAC) aims to transform the company into a major EV player in China with high commitment to EVs (new platform, battery production, capacity expansion and hybrid technology). The full conversion of its Trumpchi brand into a hybrid version and NEV to account for 50% of its self-brand operations by 2025 is an important target. To raise EV penetration, GAC intends to fast-track GAC AION EV capacity expansion to support new model launches.

**Turning around the self-brand business.** Improving volume sales with better revenue mix and narrowing operating losses are on the horizon for the self-brand unit to stage a turnaround in FY23F. Besides, certain raw material prices are expected to stabilise and improving chip supply should support earnings visibility.

**Anticipate improving performance of key Japanese brands.** We anticipate sales of its Japanese brands will improve and contribute to earnings growth, on improving chip supply and new models in the coming quarters. Chip shortage had impacted sales in 2H21 and earnings contributions from the JVs had dropped by 50% in 3Q21.

### Valuation:

Our HK\$9.80 TP is based on a 9x PE FY22F (5-year historical average). We expect the stock to attract some buying interest given its attractive valuation of 7x PE (FY22) and a robust NEV strategy.

### Where we differ:

Our FY22/23F earnings are ahead of consensus as we believe the group's new investment strategy on technology and products would support higher earnings.

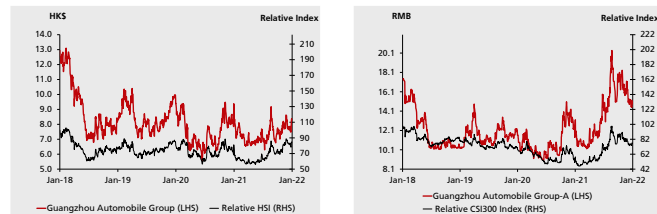
### Key Risks to Our View:

Continual shortage of automotive chips could hurt supply and impact GAC's operations and earnings.

### At A Glance

Issued Capital - H shares (m shs)	3,099
- Non H shrs (m shs)	7,258
H shs as a % of Total	30
Total Mkt Cap (HK\$/US\$m)	159,796 / 20,511
Major Shareholders (%)	
Guangzhou Automobile Industry Group Co., Ltd.	71.6
Guangzhou Huiyin Tianyue Equity Inv Fund Mgt	5.5
Major H Shareholders (As % of H shares)	
Guangzhou Automobile Industry Group Co., Ltd.	9.4
H Shares-Free Float (%)	90.6
3m Avg. Daily Val. (US\$m)	28.16
GICS Industry: Consumer Discretionary / Automobiles & Components	

### Price Relative



### Forecasts and Valuation (H Shares)

FY Dec (RMBm)	2020A	2021F	2022F	2023F
Turnover	63,157	76,356	92,743	104,581
EBITDA	10,810	12,454	16,168	18,955
Pre-tax Profit	5,692	7,066	10,018	12,214
Net Profit	5,964	7,165	9,798	11,869
Net Pft (Pre Ex) (core profit)	5,964	7,165	9,798	11,869
Net Profit Gth (Pre-ex) (%)	(9.9)	20.1	36.7	21.1
EPS (RMB)	0.58	0.69	0.95	1.15
EPS (HK\$)	0.71	0.85	1.16	1.41
EPS Gth (%)	(9.9)	18.8	36.7	21.1
Diluted EPS (HK\$)	0.71	0.85	1.16	1.41
DPS (HK\$)	0.22	0.25	0.35	0.42
BV Per Share (HK\$)	10.11	10.62	11.48	12.50
PE (X)	11.6	9.8	7.1	5.9
P/Cash Flow (X)	nm	nm	120.5	42.4
P/Free CF (X)	nm	nm	nm	nm
EV/EBITDA (X)	5.4	5.3	4.3	3.8
Net Div Yield (%)	2.7	3.1	4.2	5.1
P/Book Value (X)	0.8	0.8	0.7	0.7
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE(%)	7.2	8.2	10.5	11.7
Earnings Rev (%)		(12)	(3)	New
Consensus EPS (RMB)		0.68	0.92	1.10
Other Broker Recs:		B:25	S:0	H:6

Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters



Watchlist the stock on Insights Direct to receive prompt updates



## Guangzhou Automobile Group

### WHAT'S NEW

#### Acceleration of NEV expansion across various brands

GAC is launching several initiatives to speed up NEV development in view of rapidly expanding NEV market.

- 1) Smart electric and smart hybrid to be main electrification pillars. GAC is working with several prominent technology companies such as Tencent and Huawei to strengthen its intelligent connected vehicle development capabilities, and autonomous driving L4 is expected to be ready for commercialization in 2024. Setting a competitive NEV pricing strategy will also help to entrench its market position as NEVs become a mainstream segment in the future. GAC's GEP3.0 platform will support all new-electric vehicle version, with the first model ready for sale by 2023.
- 2) Graphene-based battery for EVs. Battery cell production is expected to commence in 2022, an important move as battery accounts for over 30% of vehicle costs. Self-production of the car battery will provide better cost management. The company is moving into the over 300Wh/kg battery energy density pack to rival peers.
- 3) GAC AION's capacity to increase to 200k units by 2022 and 400k units by 2023. In 2021, GAC AION total volume sales crossed 120,000 units, more than double compared to 2020. Hence, the planned capacity expansion is critical to support new model productions and sales. As insufficient EV charging infrastructure support is the main draw-back of EV sales, GAC AION plans to build some 2,000 charging piles in key cities by 2025.
- 4) To enhance the future contributions from its various JVs and to ride on the electric mobility upcycle, GAC is also building its NEV portfolio together with its JV partners. This is crucial as the NEV market is currently dominated by the Chinese players. Hence, GAC-Honda's pure electric model e:NPI will be ready in 1H22 while GAC-Toyota Venza based on the TNGA platform is expected to kick off soon.

**Self-brand's negative operating performance could soon be over.** After suffering 2 years of negative sales growth, GAC self-brand unit has managed to turn around with 15% volume sales growth in FY21 after two years of contraction. Its quarterly operating loss narrowed to about Rmb600m in 3Q21, from a peak of Rmb1.6bn in 4Q20. Improving volume sales would be critical to turn around its operations, and we believe launch of new models will play an important role.

**Positive profit alert despite market challenges.** GAC released a positive profit alert. Its FY21 net earnings are expected to increase by 11-27% y-o-y, supported by 5% expansion in total vehicle sales and operating efficiency improvement. The company has guided total vehicle sales to increase by 15% to about 2.5m units for FY22. The key growth drivers include new vehicle models (EV and PHEV) across the various auto brands. GAC (together with its JVs) has planned many new models to drive sales, including GAC AION LX PLUS, Trumpchi GS8, GAC Honda EAG, and GAC Toyota pure EV sedan. This coupled with the acceleration of NEV investment should lend support to the sales outlook. We also attribute the potential softening of raw material prices and gradual improvement in chip supply to enhance its profit outlook.

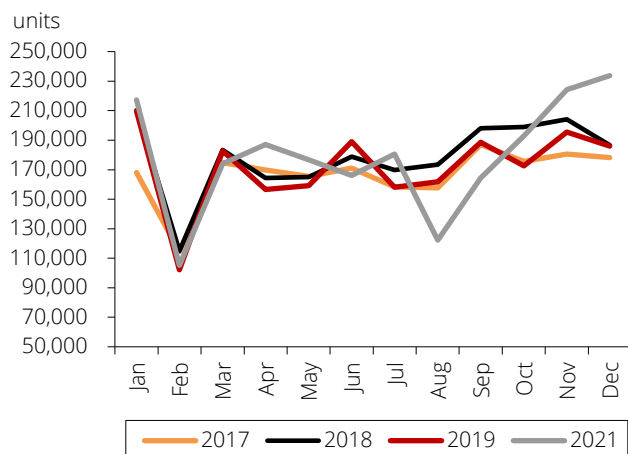
Hence, we estimate FY20-23F net earnings to post annual compound growth of c.26%. The stock is currently trading at a 7x FY22F PE.

#### Company Background

Guangzhou Automobile Group Company, Ltd. (GAC) manufactures, sells, and services automobiles. The company is also involved in automobile parts and components, and auto financing and related services for both domestic and overseas markets. It manufactures Toyota, Honda, Mitsubishi, and Fiat cars in collaboration with its foreign partners. GAC also has a proprietary auto brand Trumpchi, which the company aims to nurture into a major Chinese auto player. The company separated its NEV unit GAC Aion and focus on developing this brand into one of the leading players in NEV industry in China

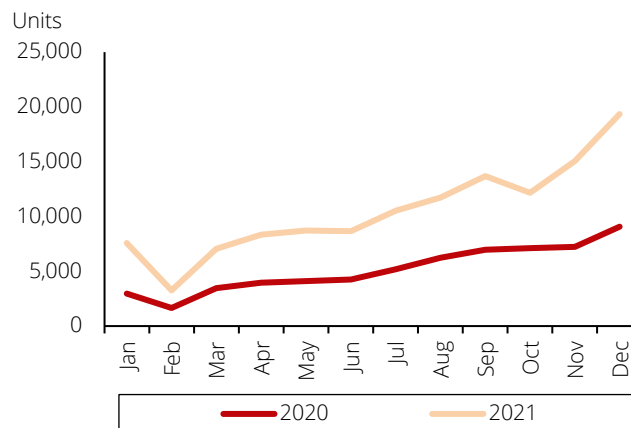
## Guangzhou Automobile Group

### GAC total vehicle monthly sales



Source: Company

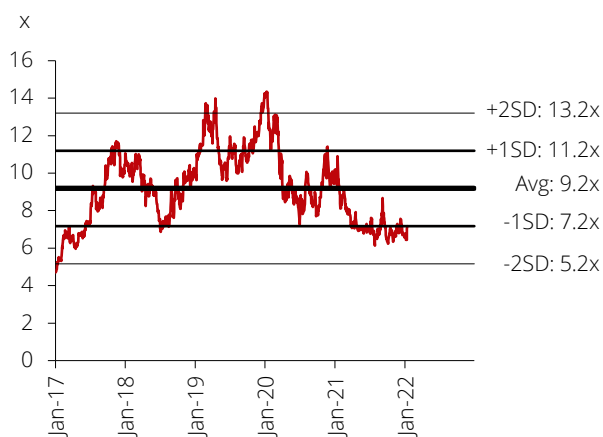
### GAC NEV monthly sales



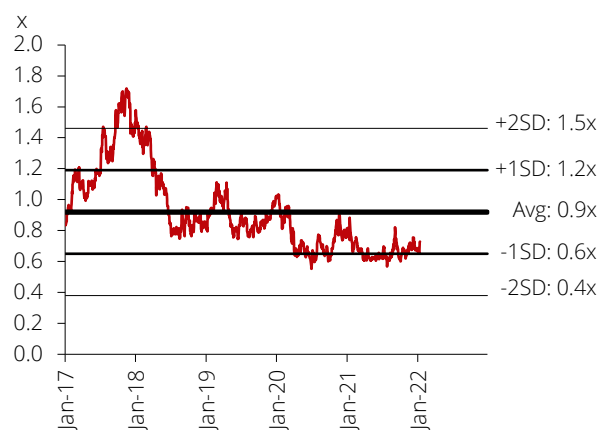
Source: Company

### Historical PE and PB band

#### Forward PE band (x)



#### PB band (x)



Source: Thomson Reuters, DBS HK



## Guangzhou Automobile Group

### Key Assumptions

FY Dec	2019A	2020A	2021F	2022F	2023F
Trumpchi sales (units)	384,578.0	293,803.0	324,201.0	356,621	385,150
GAC AION	0.0	59,543.0	120,155.0	204,263	245,116
Total veh sales at GAC level	384,578.0	353,346.0	444,356.0	560,884	630,267

Source: Company, DBS HK

### Segmental Breakdown (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
<b>Revenues (RMB m)</b>					
Guangqi Honda	105,711	118,427	116,970	133,627	151,292
GAC Toyota	98,054	110,759	118,680	129,242	140,745
GAC Mitsubishi	17,862	9,708	8,629	8,977	9,339
GAC Fiat	11,661	6,329	3,112	3,143	3,174
<b>Unit Sales</b>					
Guangqi Honda	784,991	805,786	780,266	873,898	970,027
GAC Toyota	682,008	765,008	828,000	910,800	1,001,880
GAC Mitsubishi	133,016	75,001	66,006	67,986	70,026
GAC Fiat	73,907	40,513	20,123	20,525	20,936

Source: Company, DBS HK

### Income Statement (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Revenue	59,704	63,157	76,356	92,743	104,581
Cost of Goods Sold	(57,181)	(60,861)	(72,347)	(85,521)	(95,137)
<b>Gross Profit</b>	<b>2,523</b>	<b>2,296</b>	<b>4,009</b>	<b>7,221</b>	<b>9,444</b>
Other Opng (Exp)/Inc	(5,576)	(6,167)	(7,935)	(9,434)	(10,891)
<b>Operating Profit</b>	<b>(3,053)</b>	<b>(3,871)</b>	<b>(3,926)</b>	<b>(2,212)</b>	<b>(1,447)</b>
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	9,399	9,571	10,942	12,351	13,828
Net Interest (Exp)/Inc	(54)	(8)	49	(121)	(166)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>6,292</b>	<b>5,692</b>	<b>7,066</b>	<b>10,018</b>	<b>12,214</b>
Tax	417	356	200	(100)	(200)
Minority Interest	(93)	(84)	(101)	(121)	(145)
Preference Dividend	0	0	0	0	0
<b>Net Profit</b>	<b>6,616</b>	<b>5,964</b>	<b>7,165</b>	<b>9,798</b>	<b>11,869</b>
Net Profit before Except.	6,616	5,964	7,165	9,798	11,869
EBITDA	10,630	10,810	12,454	16,168	18,955
<b>Growth</b>					
Revenue Gth (%)	(17.5)	5.8	20.9	21.5	12.8
EBITDA Gth (%)	(28.2)	1.7	15.2	29.8	17.2
Opg Profit Gth (%)	(201.4)	26.8	1.4	(43.6)	(34.6)
Net Profit Gth (%)	(39.3)	(9.9)	20.1	36.7	21.1
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	4.2	3.6	5.3	7.8	9.0
Opg Profit Margin (%)	(5.1)	(6.1)	(5.1)	(2.4)	(1.4)
Net Profit Margin (%)	11.1	9.4	9.4	10.6	11.3
ROAE (%)	8.4	7.2	8.2	10.5	11.7
ROA (%)	4.9	4.3	4.9	6.3	7.1
ROCE (%)	(3.1)	(3.7)	(3.6)	(1.8)	(1.1)
Div Payout Ratio (%)	30.9	31.2	30.0	30.0	30.0
Net Interest Cover (x)	(56.3)	(497.4)	NM	(18.3)	(8.7)

Source: Company, DBS HK

## Guangzhou Automobile Group

### Interim Income Statement (RMB m)

FY Dec	1H2019	2H2019	1H2020	2H2020	1H2021
Revenue	28,351	31,353	25,642	37,515	34,572
Cost of Goods Sold	(26,310)	(30,871)	(24,675)	(36,186)	(32,957)
<b>Gross Profit</b>	<b>2,041</b>	<b>482</b>	<b>966</b>	<b>1,330</b>	<b>1,615</b>
Other Oper. (Exp)/Inc	(1,854)	(3,722)	(2,724)	(3,443)	(3,653)
<b>Operating Profit</b>	<b>187</b>	<b>(3,241)</b>	<b>(1,758)</b>	<b>(2,113)</b>	<b>(2,039)</b>
Other Non Opg (Exp)/Inc	614	762	457	910	705
Associates & JV Inc	4,295	3,899	3,581	4,751	5,697
Net Interest (Exp)/Inc	(121)	(105)	(30)	(106)	(141)
Exceptional Gain/(Loss)	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>4,976</b>	<b>1,316</b>	<b>2,250</b>	<b>3,442</b>	<b>4,222</b>
Tax	(2)	419	92	264	131
Minority Interest	(55)	(37)	(25)	(59)	(16)
<b>Net Profit</b>	<b>4,919</b>	<b>1,698</b>	<b>2,318</b>	<b>3,646</b>	<b>4,337</b>
Net profit bef Except.	4,919	1,698	2,318	3,646	4,337
<b>Growth</b>					
Revenue Gth (%)	(23.8)	(10.9)	(9.6)	19.7	34.8
Opg Profit Gth (%)	(93.0)	(1,023.7)	(1,038.0)	(34.8)	15.9
Net Profit Gth (%)	(28.9)	(57.4)	(52.9)	114.8	87.1
<b>Margins</b>					
Gross Margins (%)	7.2	1.5	3.8	3.5	4.7
Opg Profit Margins (%)	0.7	(10.3)	(6.9)	(5.6)	(5.9)
Net Profit Margins (%)	17.3	5.4	9.0	9.7	12.5

Source: Company, DBS HK

## Guangzhou Automobile Group

### Balance Sheet (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Net Fixed Assets	19,396	20,073	27,148	33,849	40,245
Invt in Associates & JVs	32,005	33,404	37,347	41,098	45,597
Other LT Assets	29,198	32,741	30,229	27,500	24,529
Cash & ST Invt	32,243	28,500	22,805	23,443	26,169
Inventory	6,928	6,622	7,151	7,866	8,653
Debtors	16,844	19,616	22,558	24,363	26,312
Other Current Assets	850	1,906	1,906	1,906	1,906
<b>Total Assets</b>	<b>137,464</b>	<b>142,861</b>	<b>149,144</b>	<b>160,024</b>	<b>173,411</b>
ST Debt	6,169	6,504	6,504	6,504	6,504
Creditors	35,145	35,464	34,400	33,712	33,038
Other Current Liab	461	575	595	718	944
LT Debt	7,692	8,473	10,473	14,473	19,473
Other LT Liabilities	5,489	5,131	5,196	5,264	5,336
Shareholder's Equity	80,188	84,375	89,536	96,790	105,409
Minority Interests	2,320	2,339	2,439	2,561	2,705
<b>Total Cap. &amp; Liab.</b>	<b>137,464</b>	<b>142,861</b>	<b>149,144</b>	<b>160,024</b>	<b>173,410</b>
Non-Cash Wkg. Capital	(10,984)	(7,896)	(3,381)	(296)	2,888
Net Cash/(Debt)	18,382	13,523	5,828	2,465	192
Debtors Turn (avg days)	102.2	105.4	100.8	92.3	88.4
Creditors Turn (avg days)	249.3	231.1	190.6	156.4	137.6
Inventory Turn (avg days)	47.1	44.4	37.6	34.5	34.0
Asset Turnover (x)	0.4	0.5	0.5	0.6	0.6
Current Ratio (x)	1.4	1.3	1.3	1.4	1.6
Quick Ratio (x)	1.2	1.1	1.1	1.2	1.3
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	72.9	44.0	58.9	47.7	38.5
Z-Score (X)	1.9	1.8	1.8	1.8	1.8

Source: Company, DBS HK

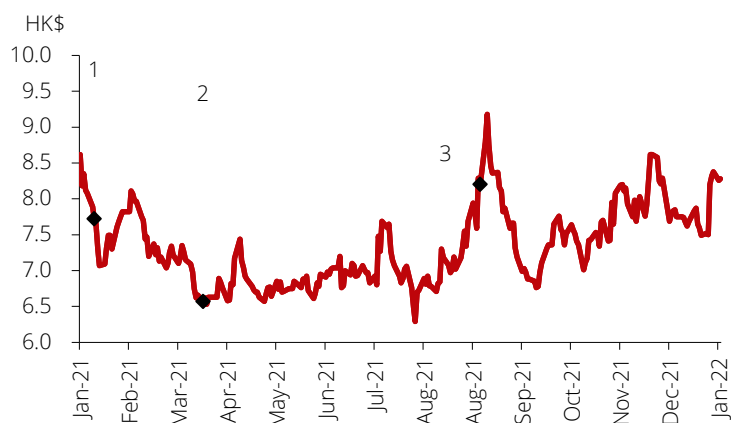
### Cash Flow Statement (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Pre-Tax Profit	6,292	5,692	7,066	10,018	12,214
Dep. & Amort.	4,284	5,110	5,437	6,029	6,574
Tax Paid	(260)	(288)	200	0	0
Assoc. & JV Inc/(loss)	(9,399)	(9,571)	(10,942)	(12,351)	(13,828)
(Pft)/ Loss on disposal of FAs	0	0	0	0	0
Chg in Wkg.Cap.	(2,953)	(4,168)	(4,450)	(3,116)	(3,313)
Other Operating CF	(351)	(446)	0	0	0
<b>Net Operating CF</b>	<b>(2,388)</b>	<b>(3,671)</b>	<b>(2,689)</b>	<b>580</b>	<b>1,648</b>
Capital Exp.(net)	(10,101)	(6,586)	(10,000)	(10,000)	(10,000)
Other Invt.(net)	0	0	0	1	1
Invt in Assoc. & JV	(1,887)	(1,620)	(500)	(500)	(500)
Div from Assoc & JV	0	0	0	1	1
Other Investing CF	11,936	5,267	7,499	9,099	9,826
<b>Net Investing CF</b>	<b>(52)</b>	<b>(2,938)</b>	<b>(3,001)</b>	<b>(1,399)</b>	<b>(672)</b>
Div Paid	(3,464)	(1,916)	(2,005)	(2,544)	(3,250)
Chg in Gross Debt	973	498	2,000	4,000	5,000
Capital Issues	1,116	625	0	0	0
Other Financing CF	(336)	(384)	0	0	0
<b>Net Financing CF</b>	<b>(1,711)</b>	<b>(1,178)</b>	<b>(5)</b>	<b>1,456</b>	<b>1,750</b>
Currency Adjustments	26	(27)	0	0	0
Chg in Cash	(4,124)	(7,814)	(5,695)	636	2,727
Opg CFPS (RMB)	0.06	0.05	0.17	0.36	0.48
Free CFPS (RMB)	(1.22)	(1.00)	(1.23)	(0.91)	(0.81)

Source: Company, DBS HK

## Guangzhou Automobile Group

### H Share - Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	26-Jan-21	HK\$7.89	HK\$10.00	Buy
2:	29-Mar-21	HK\$6.66	HK\$9.80	Buy
3:	3-Sep-21	HK\$8.29	HK\$9.80	Buy

Source: DBS HK

Analyst: Rachel MIU

### A Share - Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	26-Jan-21	RMB11.60	RMB13.00	Hold
2:	29-Mar-21	RMB10.49	RMB11.60	Hold
3:	3-Sep-21	RMB19.78	RMB19.40	Hold

Source: DBS HK

Analyst: Rachel MIU

# ZhongSheng Group

Bloomberg: 881 HK EQUITY | Reuters: 0881.HK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

19 Jan 2022

## BUY

Last Traded Price (18 Jan 2022): HK\$61.10 (HSI : 24,113)

Price Target 12-mth: HK\$86.00 (41% upside)

### Analyst

Rachel MIU +852 36684191 rachel\_miu@db.com

### What's New

- Supply tightness and resilient demand positive on profit margins
- Robust new vehicle cycle to drive vehicle sales
- Solid earnings outlook, underpinned by stores expansion
- BUY maintained; HK\$86 TP pegged to an 18x FY22F PE

### Price Relative



### Forecasts and Valuation

FY Dec (RMBm)	2020A	2021F	2022F	2023F
Turnover	148,348	184,706	232,740	279,385
EBITDA	10,797	13,846	17,438	21,173
Pre-tax Profit	7,679	10,729	13,960	17,473
Net Profit	5,540	7,648	9,950	12,455
Net Pft (Pre Ex) (core profit)	5,540	7,648	9,950	12,455
Net Profit Gth (Pre-ex) (%)	23.1	38.1	30.1	25.2
EPS (RMB)	2.44	3.24	4.13	5.16
EPS (HK\$)	2.99	3.98	5.06	6.33
EPS Gth (%)	23.0	33.0	27.3	25.1
Diluted EPS (HK\$)	2.99	3.98	5.06	6.33
DPS (HK\$)	0.60	0.80	1.01	1.27
BV Per Share (HK\$)	14.28	17.22	21.13	26.45
PE (X)	20.4	15.4	12.1	9.6
P/Cash Flow (X)	12.1	9.3	9.0	7.6
P/Free CF (X)	18.6	12.1	11.6	9.4
EV/EBITDA (X)	11.9	9.7	7.5	5.8
Net Div Yield (%)	1.0	1.3	1.7	2.1
P/Book Value (X)	4.3	3.5	2.9	2.3
Net Debt/Equity (X)	0.5	0.5	0.3	0.0
ROAE (%)	23.0	25.7	26.6	26.6
Earnings Rev (%):		1	2	New
Consensus EPS (RMB)		3.27	4.10	5.03
Other Broker Recs:		B:24	S:0	H:1

Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

## Strong product cycle outlook

### Investment Thesis

**Supply expected to remain tight.** Current premium car supply tightness should continue to support Zhongsheng's vehicle margins this year. We anticipate blended GP margins to improve about 1ppt over FY20-23F, supported by a robust Chinese premium car market. We estimate Chinese premium car sales to grow at low double digits in 2022-23 as demand remains resilient.

**Robust new product cycle.** Zhongsheng is well positioned to enjoy the strong new product cycle of Daimler from 2021-2024, including Benz electric EQA, EQB, EQS, EQE, and Mercedes Maybach S Class. Lexus is also expected to launch Lexus NX and 300e models this year to drive sales. We project Zhongsheng to post a c.18% CAGR in total new vehicle sales over FY20-23.

**Solid earnings outlook.** Expansion of Mercedes Benz stores, and strong new car models are expected to lift the earnings outlook. We estimate FY20-23F revenue and net earnings to surge by a c.20%/30% (CAGR) respectively.

### Valuation:

Our HK\$86 TP is based on an 18x FY22F PE. The strong new model pipeline should place Zhongsheng ahead of peers in sales performance. The stock is trading at a 12x FY22F PE.

### Where we differ:

Our FY22/23F net earnings are ahead of consensus as we believe Zhongsheng's huge sales network will benefit from Daimler's new model cycle, hence leading to better earnings outlook.

### Key Risks to Our View:

Logistic bottlenecks and severe chip shortage could affect the availability of new car supplies, hence impacting sales.

### At A Glance

Issued Capital (m shrs)	2,415
Mkt Cap (HK\$m/US\$m)	147,559 / 18,955
Major Shareholders (%)	
JSH Investment Holdings Ltd.	20.9
Mountain Bright Ltd.	20.2
Vintage Star Ltd.	20.2
Blue Natural Development Ltd.	7.8
Huang (Yi)	6.3
Free Float (%)	24.7
3m Avg. Daily Val. (US\$m)	26.31
GICS Industry: Consumer Discretionary / Retailing	



Watchlist the stock on Insights Direct to receive prompt updates

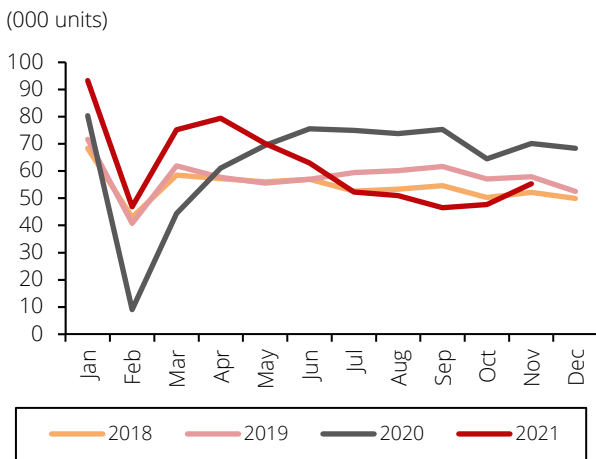


## ZhongSheng Group

### Company Background

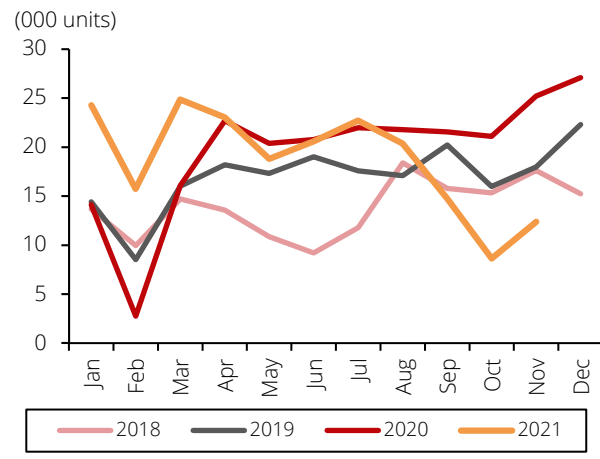
Zhongsheng Group Holdings Ltd. (Zhongsheng) retails automobiles. The group operates 4S outlets and retails primarily luxury and mid-range to high-end automobile brands such as Audi, Lexus, Mercedes-Benz, BMW, Jaguar Land Rover, Volvo, Nissan, Toyota, and Honda.

### Mercedes Benz retail volume sales



Source: Bloomberg

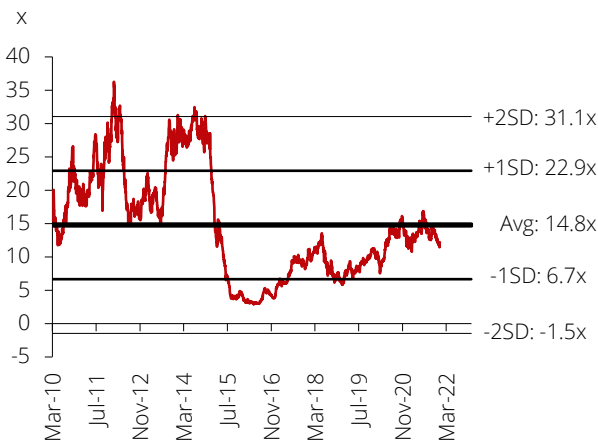
### Lexus retail volume sales



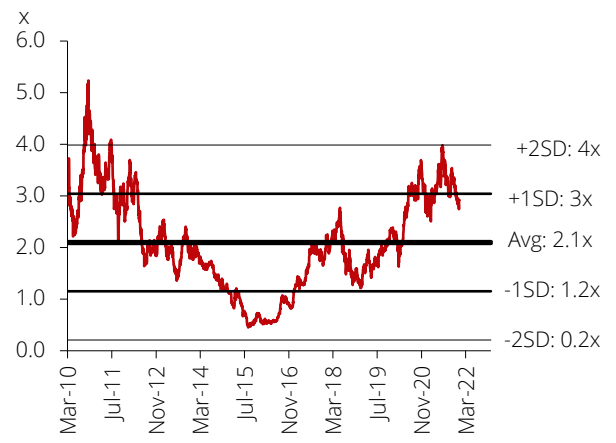
Source: Bloomberg

### Historical PE and PB band

#### Forward PE band (x)



#### PB band (x)



Source: Thomson Reuters, DBS HK

## ZhongSheng Group

### Key Assumptions

FY Dec	2019A	2020A	2021F	2022F	2023F
Mid-high end vol sales (unit)	227,685.0	225,192.0	258,970.8	284,867.9	310,506.0
Luxury vol sales (unit)	228,020.0	275,417.0	330,500.4	423,040.5	507,648.6

Source: Company, DBS HK

### Segmental Breakdown (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
<b>Revenues (RMB m)</b>					
New car sales	106,199	125,527	151,636	190,713	228,328
After-sales business	17,843	20,245	25,306	31,633	37,960
Pre-owned car business	N/A	2,576	7,763	10,395	13,097
<b>Total</b>	<b>124,043</b>	<b>148,348</b>	<b>184,706</b>	<b>232,740</b>	<b>279,385</b>
<b>Gross Profit (RMB m)</b>					
New car sales	2,888	3,710	5,594	7,578	9,773
After-sales business	8,600	9,575	12,147	15,279	18,221
Pre-owned car business	N/A	197	567	780	1,048
<b>Total</b>	<b>11,488</b>	<b>13,482</b>	<b>18,308</b>	<b>23,637</b>	<b>29,041</b>
<b>Gross Profit Margins (%)</b>					
New car sales	2.7	3.0	3.7	4.0	4.3
After-sales business	48.2	47.3	48.0	48.3	48.0
Pre-owned car business	N/A	7.6	7.3	7.5	8.0
<b>Total</b>	<b>9.3</b>	<b>9.1</b>	<b>9.9</b>	<b>10.2</b>	<b>10.4</b>

Source: Company, DBS HK

## ZhongSheng Group

### Income Statement (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Revenue	124,043	148,348	184,706	232,740	279,385
Cost of Goods Sold	(112,555)	(134,866)	(166,398)	(209,104)	(250,343)
<b>Gross Profit</b>	<b>11,488</b>	<b>13,482</b>	<b>18,308</b>	<b>23,637</b>	<b>29,041</b>
Other Opng (Exp)/Inc	(6,879)	(7,969)	(10,177)	(12,801)	(15,366)
<b>Operating Profit</b>	<b>4,609</b>	<b>5,513</b>	<b>8,131</b>	<b>10,836</b>	<b>13,675</b>
Other Non Opng (Exp)/Inc	3,050	3,343	3,821	4,369	5,001
Associates & JV Inc	(1)	2	2	2	3
Net Interest (Exp)/Inc	(1,331)	(1,179)	(1,224)	(1,248)	(1,206)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>6,327</b>	<b>7,679</b>	<b>10,729</b>	<b>13,960</b>	<b>17,473</b>
Tax	(1,807)	(2,098)	(3,004)	(3,909)	(4,892)
Minority Interest	(18)	(41)	(77)	(101)	(126)
Preference Dividend	0	0	0	0	0
<b>Net Profit</b>	<b>4,502</b>	<b>5,540</b>	<b>7,648</b>	<b>9,950</b>	<b>12,455</b>
Net Profit before Except.	4,502	5,540	7,648	9,950	12,455
EBITDA	9,396	10,797	13,846	17,438	21,173
<b>Growth</b>					
Revenue Gth (%)	15.1	19.6	24.5	26.0	20.0
EBITDA Gth (%)	24.5	14.9	28.2	25.9	21.4
Opg Profit Gth (%)	19.2	19.6	47.5	33.3	26.2
Net Profit Gth (%)	23.8	23.1	38.1	30.1	25.2
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	9.3	9.1	9.9	10.2	10.4
Opg Profit Margin (%)	3.7	3.7	4.4	4.7	4.9
Net Profit Margin (%)	3.6	3.7	4.1	4.3	4.5
ROAE (%)	22.5	23.0	25.7	26.6	26.6
ROA (%)	7.5	8.4	10.2	11.7	13.2
ROCE (%)	6.5	7.3	9.5	11.4	13.1
Div Payout Ratio (%)	20.0	20.0	20.0	20.0	20.0
Net Interest Cover (x)	3.5	4.7	6.6	8.7	11.3

Source: Company, DBS HK

### Interim Income Statement (RMB m)

FY Dec	1H2019	2H2019	1H2020	2H2020	1H2021
Revenue	57,413	66,630	58,203	90,145	87,361
Cost of Goods Sold	(52,214)	(60,341)	(52,793)	(82,073)	(78,898)
<b>Gross Profit</b>	<b>5,198</b>	<b>6,289</b>	<b>5,410</b>	<b>8,072</b>	<b>8,463</b>
Other Oper. (Exp)/Inc	(2,994)	(3,885)	(3,082)	(4,887)	(4,567)
<b>Operating Profit</b>	<b>2,205</b>	<b>2,404</b>	<b>2,328</b>	<b>3,185</b>	<b>3,896</b>
Other Non Opng (Exp)/Inc	1,333	1,717	1,449	1,894	1,727
Associates & JV Inc	0	(2)	1	1	3
Net Interest (Exp)/Inc	(627)	(704)	(586)	(593)	(516)
Exceptional Gain/(Loss)	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>2,911</b>	<b>3,416</b>	<b>3,192</b>	<b>4,486</b>	<b>5,109</b>
Tax	(808)	(999)	(883)	(1,215)	(1,377)
Minority Interest	(20)	3	(17)	(24)	(36)
<b>Net Profit</b>	<b>2,082</b>	<b>2,419</b>	<b>2,292</b>	<b>3,248</b>	<b>3,696</b>
Net profit bef Except.	2,082	2,419	2,292	3,248	3,696
<b>Growth</b>					
Revenue Gth (%)	16.4	14.0	1.4	35.3	50.1
Opg Profit Gth (%)	5.3	35.5	5.6	32.5	67.3
Net Profit Gth (%)	13.3	34.5	10.1	34.3	61.3
<b>Margins</b>					
Gross Margins (%)	9.1	9.4	9.3	9.0	9.7
Opg Profit Margins (%)	3.8	3.6	4.0	3.5	4.5
Net Profit Margins (%)	3.6	3.6	3.9	3.6	4.2

Source: Company, DBS HK



## ZhongSheng Group

### Balance Sheet (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Net Fixed Assets	12,362	14,373	15,837	17,008	17,954
Invt in Associates & JVs	47	49	51	54	57
Other LT Assets	18,974	20,228	28,956	29,155	29,315
Cash & ST Invt	7,706	9,817	9,333	12,431	17,578
Inventory	9,828	9,090	8,658	9,403	10,327
Debtors	1,463	1,430	2,178	2,745	3,295
Other Current Assets	12,644	13,515	15,751	18,121	20,638
<b>Total Assets</b>	<b>63,024</b>	<b>68,501</b>	<b>80,764</b>	<b>88,916</b>	<b>99,162</b>
ST Debt	17,090	16,980	18,980	15,980	12,980
Creditors	4,875	4,980	7,477	9,403	11,266
Other Current Liab	5,182	6,514	7,533	8,237	9,031
LT Debt	8,218	7,178	7,178	7,178	7,178
Other LT Liabilities	5,483	5,967	5,967	5,967	5,967
Shareholder's Equity	21,759	26,463	33,133	41,553	52,018
Minority Interests	418	419	496	597	722
<b>Total Cap. &amp; Liab.</b>	<b>63,024</b>	<b>68,501</b>	<b>80,764</b>	<b>88,916</b>	<b>99,162</b>
Non-Cash Wkg. Capital	13,878	12,540	11,577	12,628	13,963
Net Cash/(Debt)	(17,602)	(14,342)	(16,826)	(10,728)	(2,581)
Debtors Turn (avg days)	4.1	3.6	3.6	3.9	3.9
Creditors Turn (avg days)	16.0	13.5	13.8	14.9	15.2
Inventory Turn (avg days)	34.3	26.0	19.7	15.9	14.5
Asset Turnover (x)	2.1	2.3	2.5	2.7	3.0
Current Ratio (x)	1.2	1.2	1.1	1.3	1.6
Quick Ratio (x)	0.3	0.4	0.3	0.5	0.6
Net Debt/Equity (X)	0.8	0.5	0.5	0.3	0.0
Net Debt/Equity ex MI (X)	0.8	0.5	0.5	0.3	0.0
Capex to Debt (%)	10.5	13.4	11.5	13.0	14.9
Z-Score (X)	4.3	4.3	4.3	4.3	4.3

Source: Company, DBS HK

### Cash Flow Statement (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Pre-Tax Profit	6,327	7,679	10,729	13,960	17,473
Dep. & Amort.	1,738	1,940	1,893	2,231	2,494
Tax Paid	(1,808)	(1,745)	(1,774)	(3,004)	(3,909)
Assoc. & JV Inc/(loss)	1	(2)	(2)	(2)	(3)
(Pft)/ Loss on disposal of FAs	0	0	0	0	0
Chg in Wkg.Cap.	204	322	633	(1,056)	(1,418)
Other Operating CF	1,337	1,131	1,224	1,248	1,206
<b>Net Operating CF</b>	<b>7,799</b>	<b>9,324</b>	<b>12,704</b>	<b>13,376</b>	<b>15,843</b>
Capital Exp.(net)	(2,668)	(3,232)	(3,000)	(3,000)	(3,000)
Other Invt.(net)	0	0	0	0	0
Invt in Assoc. & JV	(356)	(1,528)	(8,385)	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	(115)	1,526	(1,477)	(1,384)	(1,370)
<b>Net Investing CF</b>	<b>(3,139)</b>	<b>(3,234)</b>	<b>(12,862)</b>	<b>(4,384)</b>	<b>(4,370)</b>
Div Paid	(1,182)	(991)	(1,108)	(1,530)	(1,990)
Chg in Gross Debt	(1,782)	(1,315)	2,000	(3,000)	(3,000)
Capital Issues	0	0	130	0	0
Other Financing CF	(1,748)	(1,658)	(1,348)	(1,364)	(1,336)
<b>Net Financing CF</b>	<b>(4,711)</b>	<b>(3,964)</b>	<b>(326)</b>	<b>(5,894)</b>	<b>(6,326)</b>
Currency Adjustments	10	(17)	0	0	0
Chg in Cash	(41)	2,109	(484)	3,098	5,147
Opg CFPS (RMB)	3.34	3.96	5.12	5.98	7.15
Free CFPS (RMB)	2.26	2.68	4.11	4.30	5.32

Source: Company, DBS HK

**ZhongSheng Group**

**Target Price & Ratings History**



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	27-Jan-21	HK\$48.30	HK\$65.00	Buy
2:	22-Mar-21	HK\$55.90	HK\$65.00	Buy
3:	25-May-21	HK\$62.25	HK\$75.30	Buy
4:	12-Jul-21	HK\$73.70	HK\$86.00	Buy
5:	10-Aug-21	HK\$68.10	HK\$86.00	Buy

Source: DBS HK

Analyst: Rachel MIU

DBS HK recommendations are based on an Absolute Total Return\* Rating system, defined as follows:

**STRONG BUY** (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

**BUY** (>15% total return over the next 12 months for small caps, >10% for large caps)

**HOLD** (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

**FULLY VALUED** (negative total return, i.e., > -10% over the next 12 months)

**SELL** (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

\*Share price appreciation + dividends

Completed Date: 19 Jan 2022 17:00:38 (HKT)

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Sources for all charts and tables are DBS HK unless otherwise specified.

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