

# 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

24 Mar 2022

## BUY

Last Traded Price (23 Mar 2022): HK\$11.96 (HSI : 22,154)  
Price Target 12-mth: HK\$20.00 (67% upside) (Prev HK\$29.00)

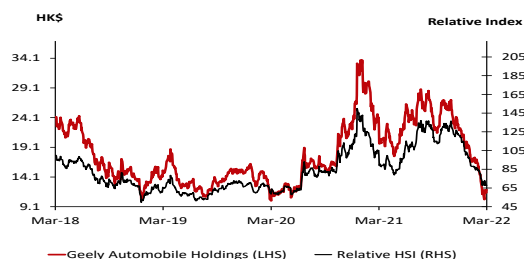
### Analyst

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### What's New

- FY21 adjusted core net earnings grew 9%
- To optimize product mix; Leishen, Zeekr, Geometry to boost new model launches to 13 in 2022
- Higher vehicle ASP to mitigate cost pressure
- Maintain BUY; new HK\$20 TP pegged to 18x FY22F PE

### Price Relative



### Forecasts and Valuation

FY Dec (RMBm)	2020A	2021A	2022F	2023F
Turnover	92,114	101,611	130,563	156,225
EBITDA	11,724	11,278	15,387	19,049
Pre-tax Profit	6,441	4,665	9,854	12,844
Net Profit	5,397	4,720	8,751	11,379
Net Pft (Pre Ex) (core profit)	5,397	4,720	8,751	11,379
Net Profit Gth (Pre-ex) (%)	(34.1)	(12.5)	85.4	30.0
EPS (RMB)	0.56	0.48	0.89	1.16
EPS (HK\$)	0.69	0.59	1.09	1.42
EPS Gth (%)	(37.4)	(14.9)	85.4	30.0
Diluted EPS (HK\$)	0.69	0.59	1.09	1.41
DPS (HK\$)	0.21	0.21	0.22	0.29
BV Per Share (HK\$)	7.74	8.15	9.05	10.26
PE (X)	17.2	20.3	10.9	8.4
P/Cash Flow (X)	58.3	6.2	10.1	8.5
P/Free CF (X)	nm	7.6	17.5	15.4
EV/EBITDA (X)	7.0	6.8	5.0	4.1
Net Div Yield (%)	1.8	1.8	1.9	2.4
P/Book Value (X)	1.5	1.5	1.3	1.2
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE(%)	9.7	7.5	12.7	14.7
Earnings Rev (%)			(15)	(10)
Consensus EPS (RMB)			0.95	1.18
Other Broker Recs:		B:36	S:0	H:6

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

## Improving product mix

### Investment Thesis

FY21 net earnings could be the trough. FY21 net earnings fell c.12% y-o-y; excluding non-cash items, core earnings grew by c.9%. More importantly, GP margin was stable at c.17% in both 1H and 2H despite the volatile commodity prices. This is attributable to its enhanced value-chain and vehicle ASP increase of c.8% last year.

**Product mix optimization positive on outlook.** Geely is intensifying its product mix strategy. Leishen, Zeekr, Geometry and Lynk are expected to roll out 13 new models this year, of which 8 will be supported by Leishen technology. In FY21, volume sales of vehicles in the Rmb100-150k ASP bracket rose by 44% and >Rmb150k saw an increase of 22%.

**High R&D to bring future benefits.** FY21 R&D expense rose almost 50% to Rmb5.5bn. For FY22-23, the R&D budget is estimated at Rmb7-8bn per year. We expect this will lift Geely's new technology development especially in smart connected NEVs and new model launches.

### Valuation:

Concerns of supply chain disruption and commodity inflation have hit the auto sector performance since the Russia-Ukraine conflict started. Taking this into account, our new TP of HK\$20 is pegged to 18x FY22F PE (previous 23x), after revising down our FY22/22F net earnings by 15%/10% respectively. The stock is currently trading at FY22F 11x PE.

### Where we differ:

Our FY22F net earnings is below consensus due to initial startup cost to accelerate its NEV business via new investments into technology and product development.

### Key Risks to Our View:

Product margin erosion on rising raw material costs and market share decline as a result of intense competition.

### At A Glance

Issued Capital (m shrs)	10,018
Mkt Cap (HK\$/US\$m)	119,815 / 15,314
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)	115.79
GICS Industry: Consumer Discretionary / Automobiles & Components	



Watchlist the stock on Insights Direct to receive prompt updates



## Geely Automobile Holdings

### WHAT'S NEW

#### FY21 could be the bottom

##### FY21 net earnings disappoint but could be the trough.

Higher product ASP lifted automobile sales revenue by c.5% to Rmb88bn despite a shortage of auto chips and flat volume sales at about 1.32m units. Growth of auto related businesses lifted total revenue by 10% to Rmb101bn. GP margin was higher by 1.1ppts to 17%. Looking at the two halves of the year, GP margin was stable despite the sharp spike in commodity prices. Net earnings fell c.12% to Rmb4.8bn and excluding non-cash share-based payments, adjusted net earnings would have increased by c.9% to Rmb6.1bn, but still below market expectations. Geely raised its dividend payout to 35% (HK\$0.21 final DPS) vs 30% (HK\$0.20 DPS) in FY20.

##### 2022 outlook to improve especially in electrified vehicle development.

Better product mix is expected to lead to higher GP margins in 2022. Last year was a challenging year on tight chip supply, initial technical problems of its Zeekr brand and rising raw material prices. With the new vehicle platforms ready to support a richer new model pipeline, modular development should accelerate the new model launch pace. In FY22, Geely intends to launch 13 new models, covering PHEV, HEV and BEV developments, with the launch of Leishen Power hybrid system to support Zeekr, Geometry and Lynk brands. In FY21, total electrified vehicle volume sales increased 60% y-o-y to about 104k units. The strong technology backing could potentially double its NEV sales in FY22. The high crude oil price is expected to speed up Leishen Power hybrid technology adoption rate.

Since the launch of Zeekr brand in 4Q21, total EV sales have reached about 15,000 units by end Feb-22. Zeekr is expanding its R&D capability by adding more software engineers (from initial 35% of total R&D staff count to 65% currently) to strengthen the product quality. Vehicle sales momentum is expected to pick up from 2Q22 this should support 70,000 units of sales in FY22, at ASP range of Rmb300-350k/car.

Lynk has also entered the European market and continues to move up the value chain with product ASP above

Rmb300,000/car. Lynk plans to roll out two each new and upgrade models every year to broaden its customer reach. With the latest Lynk 09 model in the market, the company target to achieve 30%+ increase in sales to 300,000 units this year.

In FY21, technology services and licensing income surged c.245% to Rmb4.5bn. This segment offers decent growth in the coming years, as Geely continues to ride on its parent's autonomous vehicle development and IP outsourcing arrangement.

Going global is reaping strong sales. Export sales is an important growth driver, leveraging on Lynk brand to penetrate Europe and Asian markets. Share of export sales rose from 4% in FY19 to 9% in FY21. For 2M22, volume sales expanded by a robust 35%.

**Cut TP but maintain BUY.** The auto sector has been sold down since the Russia-Ukraine conflict started. Concerns of supply chain disruption and commodity inflation have hit the auto sector performance. We reduced FY22/23F earnings by 15%/10% to factor in higher cost assumptions. Our new TP of HK\$20 is pegged to lower target PE of 18x FY22F (prev: 23x). We believe the current valuation should have largely factored in the concerns.

#### 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 and Zeekr in 2021.

## Geely Automobile Holdings

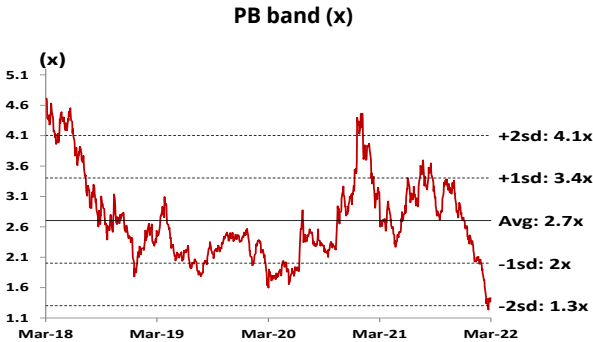
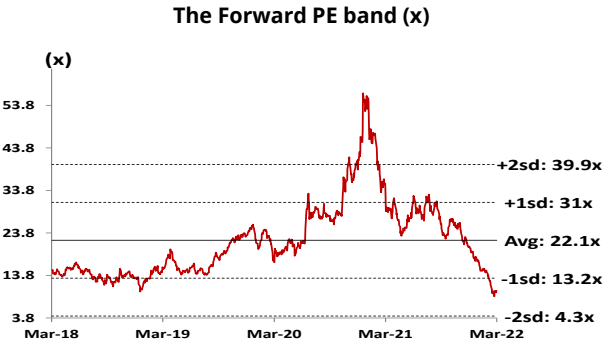
### Geely FY21 results performance

	1H20	2H20	1H21	2H21	2H21 vs 2H20 Y-o-Y chg. %	2H21 vs 1H21 H-o-H chg. %	FY20	FY21	Y-o-Y chg.% 21 vs 20
Revenue	36,820	55,294	45,032	56,579	2.3%	25.6%	92,114	101,611	10.3%
Cost of sales	(30,518)	(46,859)	(37,273)	(46,926)	0.1%	25.9%	(77,377)	(84,199)	8.8%
Gross profit	6,302	8,435	7,759	9,653	14.4%	24.4%	14,737	17,412	18.2%
Other income	671	752	800	410	-45.4%	-48.7%	1,423	1,211	-14.9%
Selling and distribution costs	(2,190)	(2,864)	(2,554)	(3,769)	31.6%	47.5%	(5,053)	(6,323)	25.1%
Administrative expenses	(2,675)	(3,070)	(3,251)	(4,657)	51.7%	43.2%	(5,745)	(7,908)	37.6%
Share-based payments	(2)	(2)	(641)	(572)	nm	-10.7%	(4)	(1,213)	nm
Operating profit	2,106	3,251	2,114	1,066	-67.2%	-49.6%	5,357	3,180	-40.6%
Net finance item	89	120	101	179	49.8%	78.1%	208	280	34.5%
JCE & asso profits	446	430	706	499	16.1%	-29.3%	875	1,205	37.6%
Pre-tax profit	2,640	3,801	2,921	1,745	-54.1%	-40.3%	6,441	4,665	-27.6%
Income tax expense	(320)	(546)	(512)	199	nm	-139.0%	(866)	(312)	-64.0%
Profit for the period	2,320	3,255	2,409	1,944	-40.3%	-19.3%	5,575	4,353	-21.9%
Minority Interest	(23)	(18)	(28)	522	nm	-1968.9%	(41)	494	-1310.7%
PATMI	2,297	3,237	2,381	2,466	-23.8%	3.6%	5,534	4,847	-12.4%
EPS (RMB cents)	24.73	31.77	24.25	24.08	-24.2%	-0.7%	56.50	48.33	-14.5%
DPS (HK\$)							0.200	0.210	5.0%
<b>Margin Analysis</b>					<b>ppts</b>	<b>ppts</b>			<b>ppts</b>
Gross Profit Margin	17.1%	15.3%	17.2%	17.1%	1.8	(0.2)	16.0%	17.1%	1.1
Operating Profit Margin	5.7%	5.9%	4.7%	1.9%	(4.0)	(2.8)	5.8%	3.1%	(2.7)
Net Profit Margin	6.2%	5.9%	5.3%	4.4%	(1.5)	(0.9)	6.0%	4.8%	(1.2)
<b>Sales Volume ('000)</b>									
Total sales	530.4	789.8	630.2	697.8	-11.6%	10.7%	1,320.2	1,328.0	0.6%
Of which:									
Domestic sales	510.9	736.7	576.8	636.2	-13.6%	10.3%	1,247.5	1,213.0	-2.8%
Export sales	19.6	53.1	53.4	61.6	15.9%	15.3%	72.7	115.0	58.2%
<b>Performance of Lynk</b>									
Revenue	8,039	15,742	14,319	15,790	0.3%	10.3%	23,782	30,109	26.6%
Profit for the period	191	320	414	286	-10.7%	-30.9%	512	701	36.9%
Units sold	54,763	120,693	107,873	112,643	-6.7%	4.4%	175,456	220,516	25.7%

Source: Company

### Geely Automobile Holdings

#### Historical PE and PB band



Source: Thomson Reuters, DBS HK

## Geely Automobile Holdings

### Key Assumptions

FY Dec	2019A	2020A	2021A	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	79,183.0	84,725.0	89,809.0

Source: Company, DBS HK

### Segmental Breakdown (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
<b>Revenues (RMB m)</b>					
Auto mobile sales	91,843	83,814	87,697	112,602	133,681
Parts & components	5,130	6,989	8,798	11,438	14,869
Licensing of IP	428	566	1,275	1,531	1,684
Others	N/A	745	3,840	4,992	5,990
<b>Total</b>	<b>97,401</b>	<b>92,114</b>	<b>101,611</b>	<b>130,563</b>	<b>156,225</b>

Source: Company, DBS HK

### Income Statement (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenue	97,401	92,114	101,611	130,563	156,225
Cost of Goods Sold	(80,485)	(77,377)	(84,199)	(107,584)	(127,323)
<b>Gross Profit</b>	<b>16,917</b>	<b>14,737</b>	<b>17,412</b>	<b>22,979</b>	<b>28,902</b>
Other Opng (Exp)/Inc	(8,052)	(9,380)	(14,232)	(15,320)	(19,032)
<b>Operating Profit</b>	<b>8,864</b>	<b>5,357</b>	<b>3,180</b>	<b>7,659</b>	<b>9,869</b>
Other Non Opng (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	664	875	1,205	1,803	2,671
Net Interest (Exp)/Inc	108	208	280	392	303
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>4,665</b>	<b>9,854</b>	<b>12,844</b>
Tax	(1,375)	(866)	(312)	(886)	(1,221)
Minority Interest	(72)	(41)	494	(90)	(116)
Preference Dividend	0	(137)	(127)	(127)	(127)
<b>Net Profit</b>	<b>8,190</b>	<b>5,397</b>	<b>4,720</b>	<b>8,751</b>	<b>11,379</b>
Net Profit before Except.	8,190	5,397	4,720	8,751	11,379
EBITDA	13,261	11,724	11,278	15,387	19,049
<b>Growth</b>					
Revenue Gth (%)	(8.6)	(5.4)	10.3	28.5	19.7
EBITDA Gth (%)	(23.3)	(11.6)	(3.8)	36.4	23.8
Opg Profit Gth (%)	(38.6)	(39.6)	(40.6)	140.9	28.9
Net Profit Gth (%)	(34.8)	(34.1)	(12.5)	85.4	30.0
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	17.4	16.0	17.1	17.6	18.5
Opg Profit Margin (%)	9.1	5.8	3.1	5.9	6.3
Net Profit Margin (%)	8.4	5.9	4.6	6.7	7.3
ROAE (%)	17.1	9.7	7.5	12.7	14.7
ROA (%)	8.2	4.9	3.9	6.3	7.6
ROCE (%)	14.0	7.2	4.1	8.7	10.0
Div Payout Ratio (%)	25.1	30.3	36.0	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	2H2019	1H2020	2H2020	1H2021	2H2021
Revenue	49,843	36,820	55,294	45,032	56,579
Cost of Goods Sold	(41,395)	(30,518)	(46,859)	(37,273)	(46,926)
<b>Gross Profit</b>	<b>8,448</b>	<b>6,302</b>	<b>8,435</b>	<b>7,759</b>	<b>9,653</b>
Other Oper. (Exp)/Inc	(3,951)	(4,196)	(5,184)	(5,645)	(8,587)
<b>Operating Profit</b>	<b>4,497</b>	<b>2,106</b>	<b>3,251</b>	<b>2,114</b>	<b>1,066</b>
Other Non Opg (Exp)/Inc	0	0	0	1	1
Associates & JV Inc	315	446	430	706	499
Net Interest (Exp)/Inc	59	89	120	101	179
Exceptional Gain/(Loss)	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>4,872</b>	<b>2,640</b>	<b>3,801</b>	<b>2,923</b>	<b>1,747</b>
Tax	(657)	(320)	(546)	(512)	199
Minority Interest	(34)	(23)	(18)	(28)	522
<b>Net Profit</b>	<b>4,180</b>	<b>2,297</b>	<b>3,237</b>	<b>2,381</b>	<b>2,466</b>
Net profit bef Except.	4,180	2,298	3,238	2,385	2,470
<b>Growth</b>					
Revenue Gth (%)	(5.8)	(22.6)	10.9	22.3	2.3
Opg Profit Gth (%)	(33.0)	(51.8)	(27.7)	0.4	(67.2)
Net Profit Gth (%)	(28.9)	(42.7)	(22.6)	3.7	(23.8)
<b>Margins</b>					
Gross Margins (%)	16.9	17.1	15.3	17.2	17.1
Opg Profit Margins (%)	9.0	5.7	5.9	4.7	1.9
Net Profit Margins (%)	8.4	6.2	5.9	5.3	4.4

Source: Company, DBS HK

## Geely Automobile Holdings

### Balance Sheet (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Net Fixed Assets	27,070	26,574	30,859	32,842	35,632
Invt in Associates & JVs	8,837	9,689	10,205	12,008	14,678
Other LT Assets	22,006	23,618	27,982	29,075	29,776
Cash & ST Invt	19,322	19,151	28,018	27,988	28,521
Inventory	4,821	3,691	5,522	6,350	7,302
Debtors	19,764	24,557	27,032	30,094	33,515
Other Current Assets	6,108	3,536	4,657	4,883	5,120
<b>Total Assets</b>	<b>107,928</b>	<b>110,816</b>	<b>134,341</b>	<b>143,305</b>	<b>154,611</b>
ST Debt	0	0	1,907	1,907	1,907
Creditors	31,525	29,861	31,549	31,864	32,183
Other Current Liab	17,002	12,026	26,895	27,474	27,815
LT Debt	4,149	3,909	1,901	2,701	3,501
Other LT Liabilities	327	806	1,869	1,869	1,869
Shareholder's Equity	54,436	63,631	68,606	75,786	85,516
Minority Interests	489	582	1,615	1,705	1,821
<b>Total Cap. &amp; Liab.</b>	<b>107,928</b>	<b>110,816</b>	<b>134,341</b>	<b>143,305</b>	<b>154,611</b>
Non-Cash Wkg. Capital	(17,834)	(10,103)	(21,233)	(18,011)	(14,060)
Net Cash/(Debt)	15,172	15,242	24,210	23,380	23,114
Debtors Turn (avg days)	70.9	87.8	92.7	79.9	74.3
Creditors Turn (avg days)	134.9	155.8	145.0	113.8	96.7
Inventory Turn (avg days)	21.2	21.6	21.7	21.3	20.6
Asset Turnover (x)	1.0	0.8	0.8	0.9	1.0
Current Ratio (x)	1.0	1.2	1.1	1.1	1.2
Quick Ratio (x)	0.8	1.0	0.9	0.9	1.0
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	74.4	86.8	92.5
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	2021A	2022F	2023F
Pre-Tax Profit	9,636	6,441	4,665	9,854	12,844
Dep. & Amort.	3,733	5,491	6,893	5,926	6,510
Tax Paid	(1,949)	(1,371)	(1,197)	(312)	(886)
Assoc. & JV Inc/(loss)	(664)	(875)	(1,205)	(1,803)	(2,671)
(Pft)/ Loss on disposal of FAs	0	0	0	0	0
Chg in Wkg.Cap.	1,977	(9,784)	5,161	(3,795)	(4,287)
Other Operating CF	(195)	1,695	1,031	(393)	(304)
<b>Net Operating CF</b>	<b>12,538</b>	<b>1,597</b>	<b>15,348</b>	<b>9,477</b>	<b>11,206</b>
Capital Exp.(net)	(2,873)	(2,807)	(2,833)	(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)	(4,326)	(4,440)	(4,496)
<b>Net Investing CF</b>	<b>(10,791)</b>	<b>(5,430)</b>	<b>(7,159)</b>	<b>(8,440)</b>	<b>(9,496)</b>
Div Paid	(2,806)	(2,058)	(1,677)	(1,699)	(1,776)
Chg in Gross Debt	688	800	0	800	800
Capital Issues	639	5,838	0	0	0
Other Financing CF	3,242	(819)	2,593	(168)	(200)
<b>Net Financing CF</b>	<b>1,763</b>	<b>3,761</b>	<b>916</b>	<b>(1,068)</b>	<b>(1,176)</b>
Currency Adjustments	34	(232)	(68)	0	0
Chg in Cash	3,544	(304)	9,037	(31)	533
Opg CFPS (RMB)	1.16	1.19	1.04	1.35	1.58
Free CFPS (RMB)	1.06	(0.13)	1.27	0.56	0.63

Source: Company, DBS HK

## Geely Automobile Holdings

### Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	7-Jul-21	HK\$24.05	HK\$30.00	Buy
2:	19-Aug-21	HK\$26.25	HK\$34.00	Buy
3:	11-Nov-21	HK\$25.85	HK\$34.00	Buy
4:	19-Jan-22	HK\$19.24	HK\$29.00	Buy

Source: DBS HK

Analyst: Rachel Miu



## Geely Automobile Holdings

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: 24 Mar 2022 13:55:46 (HKT)

Dissemination Date: 24 Mar 2022 14:10:51 (HKT)

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

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## Geely Automobile Holdings

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