

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

4 Apr 2022

H: BUY

Last Traded Price (4 Apr 2022): HK\$6.72 (HSI : 22,502)
Price Target 12-mth: HK\$9.00 (33.9% upside) (Prev HK\$9.80)

A: HOLD

Last Traded Price (1 Apr 2022): RMB11.25 (CSI300 Index : 4,276)
Price Target 12-mth: RMB12.00 (6.7% upside) (Prev RMB16.00)

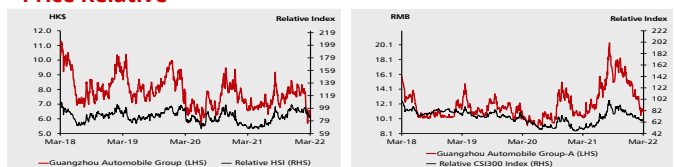
Analyst

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What's New

- Exciting NEV growth prospects, supported by strong self-developed technology
- Expect key Japanese JVs to post steady earnings growth
- Anticipate self-brand improvement to continue on the back of scale benefit
- Maintain BUY; pegged HK\$9.00 TP to 8x FY22F PE

Price Relative



Forecasts and Valuation (H Shares)

FY Dec (RMBm)	2020A	2021A	2022F	2023F
Turnover	63,157	75,676	89,384	103,635
EBITDA	10,810	13,239	15,863	18,622
Pre-tax Profit	5,692	7,412	9,637	11,723
Net Profit	5,964	7,511	9,471	11,445
Net Pft (Pre-Ex) (core profit)	5,964	7,511	9,471	11,445
Net Profit Gth (Pre-ex) (%)	(9.9)	25.9	26.1	20.8
EPS (RMB)	0.58	0.73	0.92	1.12
EPS (HK\$)	0.72	0.90	1.14	1.37
EPS Gth (%)	(9.9)	25.8	26.1	20.8
Diluted EPS (HK\$)	0.72	0.90	1.14	1.37
DPS (HK\$)	0.22	0.28	0.34	0.41
BV Per Share (HK\$)	10.15	10.85	11.64	12.60
PE (X)	9.4	7.5	5.9	4.9
P/Cash Flow (X)	nm	nm	nm	nm
P/Free CF (X)	nm	nm	nm	nm
EV/EBITDA (X)	4.1	3.9	3.5	3.2
Net Div Yield (%)	3.3	4.1	5.1	6.1
P/Book Value (X)	0.7	0.6	0.6	0.5
Net Debt/Equity (X)	CASH	CASH	CASH	0.0
ROAE(%)	7.2	8.6	10.1	11.3
Earnings Rev (%):			(3)	(3)
Consensus EPS (RMB)			0.90	1.08
Other Broker Recs:		B:26	S:0	H:6

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

One of the fastest growing NEV proxies

Investment Thesis

NEV business is expected to post strong prospects. Guangzhou Auto (GAC) NEV unit is expected to post a robust sales volume growth of 50% per annum (FY21-23F), supported by four new models in the pipeline as well as more advanced technology content (such as the sponge silicone battery to support longer driving). The NEV has a solid foundation in full-electric and hybrid technology platforms to drive the business forward. In addition, doubling the production capacity to 400k by end-2022 will also accelerate the scale.

Japanese JVs see strong growth despite challenges. In 2M22, the key Japanese JVs remained on a healthy growth track, which they are expected to sustain, although some fluctuation is expected between quarters. Both Honda and Toyota had reported c.6% growth in combined revenue in FY21. The Toyota and Honda JVs have plans to rollout eight new models in 2022 as part of its growth strategy, including some electrified versions. We estimate the JVs to record an FY21-23F earnings CAGR of 15%, to land at Rmb13bn.

Self-brand auto business improving. Trumpchi posted a 10% sales volume growth in FY21 after suffering two years of decline, and the vehicle GP margin also increased 2ppts. We anticipate the recovery pace to be better this year with the potential supply chain easing and three new models planned for sale. Hence, we projected gross profit to post a CAGR of 50% for FY21-23F, supported by the scale benefit and easing of cost pressure.

Valuation:

Our new HK\$9.00 TP is based on an 8x PE FY22F (prev: 9x) to factor in the supply chain impact, after trimming our FY22/23F earnings by about 3%. The stock valuation is attractive at FY22F 6x PE, 1SD below its historical average.

Where we differ:

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

Key Risks to Our View:

Continuous 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)	7,272
H shs as a % of Total	30
Total Mkt Cap (HK\$/US\$m)	121,135 / 15,464
Major Shareholders (%)	
Guangzhou Automobile Industry Group Co., Ltd.	70.7
Guangzhou Huiyin Tianyue Equity Inv Fund Mgt Co., Ltd.	5.4
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)	19.55
GICS Industry: Consumer Discretionary / Automobiles & Components	



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Guangzhou Automobile Group

WHAT'S NEW

Ramping up NEV sales

NEV development encompasses key segments. GAC has been embarking on NEV development and investment for several years and is expected to reap benefits with high-end NEV models for sale. Currently, the company has launched its self-developed sponge silicon battery, which will be applied in more vehicle models in the coming years to boost the driving experience. Capacity expansion is also progressing as planned and is expected to reach 400k units by end-2022. The goal is to achieve a 50% NEV sales ratio by 2025 for its self-brand.

GAC AION is one of the fastest growing NEV proxy makers. FY21 has been an interesting year for GAC AION, and the strong sales momentum remains encouraging for 2M22. Last year, the company built up a 100% increase in NEV sales to about 120k units. The strong growth extended into 1Q22 with a 130% increase in sales for 2M22. GAC AION plans to roll out four new models in 2022 to further boost its NEV sales. Given its extensive R&D as well as investment into new capacity, we estimate GAC AION to record annual growth of 50% from FY21-23F in NEV sales, to 270k units. The group aims to achieve an NEV ratio of 50% within the self-brand segment.

Japanese JVs expected to generate steady earnings growth. While the auto industry was faced with major uncertainty in 2021, GAC's major Japanese JVs have delivered a 6% expansion in revenue, to Rmb250bn, and decent earnings of some Rmb8bn to the group. In 2M22, the Japanese JVs continued to deliver good volume sales growth of 13%. Both the Toyota and Honda JVs have plans to rollout eight new models in 2022 as part of its growth strategy, including some electrified versions.

On the other hand, the GAC-FCA and GAC Mitsubishi JVs were the weaker performers within the group, as sales volume and revenue declined 12%-50% and 15%-40% in 2021, respectively, thus dragging the group's profitability. We do not expect a near-term turnaround until the JVs fix its new model roadmaps to boost volume sales.

Overall, we estimate the JVs to record an FY21-23F earnings CAGR of 15%, to Rmb13bn for GAC, largely supported by robust sales volume growth of 10%-12% till FY23F.

Improvement in self-brand operation a plus, but recovery pace was derailed due to supply chain disruptions. As expected, the self-brand auto volume sales rose by 10% in FY21 to 324k units, due to a refreshed vehicle portfolio. GP margin on vehicle sales increased c.2ppt but was below expectations due to supply chain disruptions and a surge in raw material costs. We anticipate vehicle margins to improve this year with three new models in the market and a better mix. Gross profit increased c.70% in FY21 and projected to grow at an annual rate of 50% over FY21-23F, supported by the scale benefit and easing of cost pressure.

Maintain BUY. The overall auto sector valuation has been dragged down by the volatile market. We trimmed our FY22/23F net earnings estimate by about 3% and reduced our target FY22F PE to 8x (prev: 9x) due to the current supply chain disruptions. Our new TP is HK\$9. GAC is trading at an attractive FY22F 6x PE, 1SD below its historical mean. Maintain BUY.

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 focuses on developing this brand into one of the leading players in the NEV industry in China

Guangzhou Automobile Group

Interim Income Statement (RMBm)

FY Dec	2H2020	1H2021	2H2021	% chg y-o-y	% chg h-o-h
Revenue	37,515	34,572	41,104	9.6	18.9
Cost of Goods Sold	(36,186)	(32,957)	(38,820)	7.3	17.8
Gross Profit	1,330	1,615	2,284	71.8	41.5
Other Oper. (Exp)/Inc	(3,443)	(3,653)	(4,129)	19.9	13.0
Operating Profit	(2,113)	(2,039)	(1,844)	(12.7)	(9.5)
Other Non Opg (Exp)/Inc	910	705	747	(17.9)	6.0
Associates & JV Inc	4,751	5,697	4,314	(9.2)	(24.3)
Net Interest (Exp)/Inc	(106)	(141)	(26)	75.0	81.3
Exceptional Gain/(Loss)	0	0	0	nm	nm
Pre-tax Profit	3,442	4,222	3,190	(7.3)	(24.5)
Tax	264	131	23	(91.2)	(82.2)
Minority Interest	(59)	(16)	(38)	35.3	135.6
Net Profit	3,646	4,337	3,175	(12.9)	(26.8)
Net profit bef Except.	3,646	4,337	3,175	(12.9)	(26.8)
EBITDA	6,353	7,204	6,094	(4.1)	(15.4)
Margins (%)					
Gross Margins	3.5	4.7	5.6		
Opg Profit Margins	(5.6)	(5.9)	(4.5)		
Net Profit Margins	9.7	12.5	7.7		

Source: Company, DBS HK

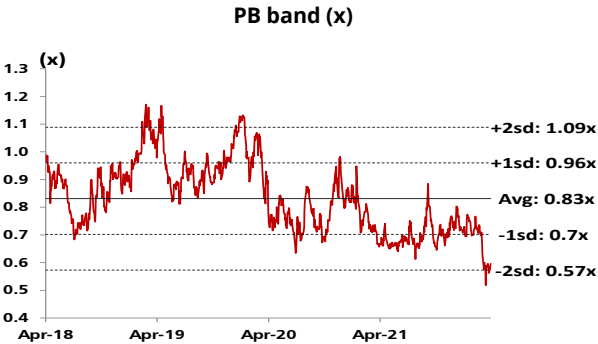
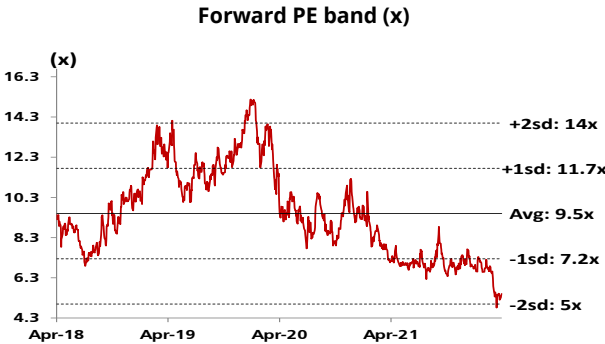
Income Statement (RMB m)

FY Dec	2020A	2021A	% chg v-o-v
Revenue	63,157	75,676	19.8
Cost of Goods Sold	(60,861)	(71,777)	17.9
Gross Profit	2,296	3,899	69.8
Other Opng (Exp)/Inc	(6,167)	(7,782)	26.2
Operating Profit	(3,871)	(3,883)	0.3
Other Non Opg (Exp)/Inc	0	0	nm
Associates & JV Inc	9,571	11,404	19.2
Net Interest (Exp)/Inc	(8)	(109)	(1,304.6)
Exceptional Gain/(Loss)	0	0	nm
Pre-tax Profit	5,692	7,412	30.2
Tax	356	154	(56.7)
Minority Interest	(84)	(55)	34.8
Net Profit	5,964	7,511	25.9
Net Profit before Except.	5,964	7,511	25.9
EBITDA	10,810	13,239	22.5
Margins & Ratio			
Gross Margins (%)	3.6	5.2	
Opg Profit Margin (%)	(6.1)	(5.1)	
Net Profit Margin (%)	9.4	9.9	

Source: Company, DBS HK

Guangzhou Automobile Group

Historical PE and PB band



Source: Thomson Reuters, DBS HK

Guangzhou Automobile Group

Key Assumptions

FY Dec	2019A	2020A	2021A	2022F	2023F
Trumpchi sales (units)	384,578	293,803	324,201	346,895	364,239
GAC AION	0.0	59,543	120,155	192,248	269,147
Total veh sales at GAC level	384,578	353,346	444,356	539,143	633,387

Source: Company, DBS HK

Segmental Breakdown

FY Dec	2019A	2020A	2021A	2022F	2023F
Unit Sales					
Guangqi Honda	784,991	805,786	780,266	858,293	944,122
GAC Toyota	682,008	765,008	828,000	952,200	1,047,420
GAC Mitsubishi	133,016	75,001	66,006	67,986	70,026

Source: Company, DBS HK

Guangzhou Automobile Group

Income Statement (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenue	59,704	63,157	75,676	89,384	103,635
Cost of Goods Sold	(57,181)	(60,861)	(71,777)	(82,299)	(94,809)
Gross Profit	2,523	2,296	3,899	7,086	8,826
Other Opng (Exp)/Inc	(5,576)	(6,167)	(7,782)	(9,735)	(11,519)
Operating Profit	(3,053)	(3,871)	(3,883)	(2,650)	(2,693)
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	9,399	9,571	11,404	12,477	14,735
Net Interest (Exp)/Inc	(54)	(8)	(109)	(191)	(319)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	6,292	5,692	7,412	9,637	11,723
Tax	417	356	154	(100)	(200)
Minority Interest	(93)	(84)	(55)	(66)	(79)
Preference Dividend	0	0	0	0	0
Net Profit	6,616	5,964	7,511	9,471	11,445
Net Profit before Except.	6,616	5,964	7,511	9,471	11,445
EBITDA	10,630	10,810	13,239	15,863	18,622
Growth					
Revenue Gth (%)	(17.5)	5.8	19.8	18.1	15.9
EBITDA Gth (%)	(28.2)	1.7	22.5	19.8	17.4
Opg Profit Gth (%)	(201.4)	26.8	0.3	(31.8)	1.6
Net Profit Gth (%)	(39.3)	(9.9)	25.9	26.1	20.8
Margins & Ratio					
Gross Margins (%)	4.2	3.6	5.2	7.9	8.5
Opg Profit Margin (%)	(5.1)	(6.1)	(5.1)	(3.0)	(2.6)
Net Profit Margin (%)	11.1	9.4	9.9	10.6	11.0
ROAE (%)	8.4	7.2	8.6	10.1	11.3
ROA (%)	4.9	4.3	5.1	5.9	6.7
ROCE (%)	(3.1)	(3.7)	(3.5)	(2.2)	(2.0)
Div Payout Ratio (%)	30.9	31.2	30.6	30.0	30.0
Net Interest Cover (x)	(56.3)	(497.4)	(35.5)	(13.9)	(8.5)

Source: Company, DBS HK

Interim Income Statement (RMB m)

FY Dec	2H2019	1H2020	2H2020	1H2021	2H2021
Revenue	31,353	25,642	37,515	34,572	41,104
Cost of Goods Sold	(30,871)	(24,675)	(36,186)	(32,957)	(38,820)
Gross Profit	482	966	1,330	1,615	2,284
Other Oper. (Exp)/Inc	(3,722)	(2,724)	(3,443)	(3,653)	(4,129)
Operating Profit	(3,241)	(1,758)	(2,113)	(2,039)	(1,844)
Other Non Opg (Exp)/Inc	762	457	910	705	747
Associates & JV Inc	3,899	3,581	4,751	5,697	4,314
Net Interest (Exp)/Inc	(105)	(30)	(106)	(141)	(26)
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	1,316	2,250	3,442	4,222	3,190
Tax	419	92	264	131	23
Minority Interest	(37)	(25)	(59)	(16)	(38)
Net Profit	1,698	2,318	3,646	4,337	3,175
Net profit bef Except.	1,698	2,318	3,646	4,337	3,175
Growth					
Revenue Gth (%)	(10.9)	(9.6)	19.7	34.8	9.6
Opg Profit Gth (%)	(1,023.7)	(1,038.0)	(34.8)	15.9	(12.7)
Net Profit Gth (%)	(57.4)	(52.9)	114.8	87.1	(12.9)
Margins					
Gross Margins (%)	1.5	3.8	3.5	4.7	5.6
Opg Profit Margins (%)	(10.3)	(6.9)	(5.6)	(5.9)	(4.5)
Net Profit Margins (%)	5.4	9.0	9.7	12.5	7.7

Source: Company, DBS HK

Guangzhou Automobile Group

Balance Sheet (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Net Fixed Assets	19,396	20,073	19,476	26,176	32,573
Invt in Associates & JVs	32,005	33,404	36,927	40,394	45,716
Other LT Assets	29,198	32,741	36,656	33,921	30,944
Cash & ST Invt	32,243	28,500	24,036	23,895	24,715
Inventory	6,928	6,622	8,111	8,922	9,814
Debtors	16,844	19,616	25,110	27,119	29,288
Other Current Assets	850	1,906	3,935	3,935	3,935
Total Assets	137,464	142,861	154,251	164,361	176,984
ST Debt	6,169	6,504	9,889	9,889	9,889
Creditors	35,145	35,464	38,490	37,721	36,966
Other Current Liab	461	575	753	873	1,094
LT Debt	7,692	8,473	7,527	11,527	16,527
Other LT Liabilities	5,489	5,131	4,943	5,006	5,073
Shareholder's Equity	80,188	84,375	90,313	96,944	104,955
Minority Interests	2,320	2,339	2,335	2,401	2,480
Total Cap. & Liab.	137,464	142,861	154,251	164,360	176,983
Non-Cash Wkg. Capital	(10,984)	(7,896)	(2,088)	1,382	4,977
Net Cash/(Debt)	18,382	13,523	6,620	2,479	(1,701)
Debtors Turn (avg days)	102.2	105.4	107.9	106.6	99.3
Creditors Turn (avg days)	249.3	231.1	204.3	182.4	154.5
Inventory Turn (avg days)	47.1	44.4	40.7	40.8	38.8
Asset Turnover (x)	0.4	0.5	0.5	0.6	0.6
Current Ratio (x)	1.4	1.3	1.2	1.3	1.4
Quick Ratio (x)	1.2	1.1	1.0	1.1	1.1
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	0.0
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	0.0
Capex to Debt (%)	72.9	44.0	57.4	46.7	37.9
Z-Score (X)	1.9	1.8	1.8	1.8	1.8

Source: Company, DBS HK

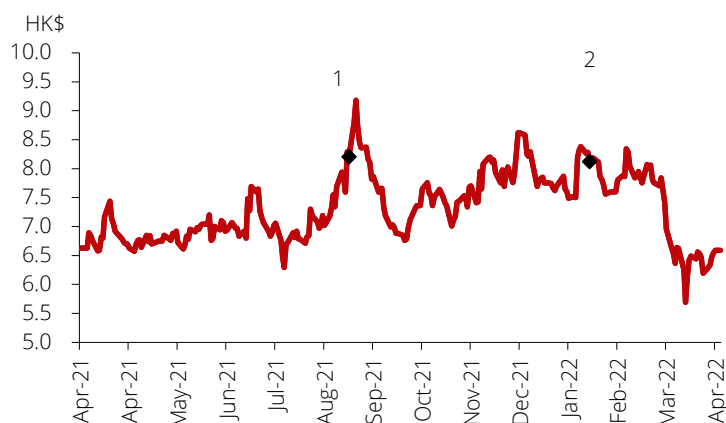
Cash Flow Statement (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Pre-Tax Profit	6,292	5,692	7,412	9,637	11,723
Dep. & Amort.	4,284	5,110	5,719	6,036	6,581
Tax Paid	(260)	(288)	200	0	0
Assoc. & JV Inc/(loss)	(9,399)	(9,571)	(11,404)	(12,477)	(14,735)
(Pft)/ Loss on disposal of FAs	0	0	0	0	0
Chg in Wkg. Cap.	(2,953)	(4,168)	(4,007)	(3,507)	(3,728)
Other Operating CF	(351)	(446)	(4,411)	0	0
Net Operating CF	(2,388)	(3,671)	(6,491)	(312)	(159)
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	17,735	9,509	9,911
Net Investing CF	(52)	(2,938)	7,235	(989)	(587)
Div Paid	(3,464)	(1,916)	(2,078)	(2,841)	(3,433)
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)	855	0	0
Net Financing CF	(1,711)	(1,178)	777	1,159	1,567
Currency Adjustments	26	(27)	(77)	0	0
Chg in Cash	(4,124)	(7,814)	1,444	(142)	820
Opg CFPS (RMB)	0.06	0.05	(0.24)	0.31	0.35
Free CFPS (RMB)	(1.22)	(1.00)	(1.61)	(1.01)	(0.99)

Source: Company, DBS HK

Guangzhou Automobile Group

H Share - Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	3-Sep-21	HK\$8.29	HK\$9.80	Buy
2:	19-Jan-22	HK\$8.28	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:	3-Sep-21	RMB19.78	RMB19.40	Hold
2:	19-Jan-22	RMB15.06	RMB16.00	Hold

Source: DBS HK

Analyst: Rachel Miu

Guangzhou Automobile Group

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: 4 Apr 2022 18:16:21 (HKT)

Dissemination Date: 4 Apr 2022 19:12:26 (HKT)

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

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