

# 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

25 Jan 2024

## BUY

Last Traded Price (23 Jan 2024): HK\$7.79 (HSI : 15,354)  
Price Target 12-mth: HK\$10.80 (39% upside) (Prev HK\$13.20)

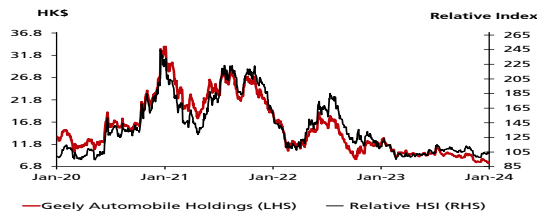
### Analyst

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### What's New

- Mid-priced NEV brand Galaxy a volume driver; encouraging sales since launch in Jun-23
- Enriching NEV portfolio; targets to achieve 66% increase in NEV sales in FY24
- Cut FY23/24F net earnings by 8%/14%, respectively to factor in challenging macro environment
- Maintain BUY; TP rolled over to FY24 net earnings and pegged to 15x PE

### Price Relative



### Forecasts and Valuation

FY Dec (RMBm)	2022A	2023F	2024F	2025F
Turnover	147,965	176,907	223,117	236,815
EBITDA	12,620	14,937	18,393	21,890
Pre-tax Profit	4,682	5,182	7,043	8,834
Net Profit	5,123	4,885	6,575	8,345
Net Pft (Pre Ex) (core profit)	5,123	4,885	6,575	8,345
Net Profit Gth (Pre-ex) (%)	8.5	(4.6)	34.6	26.9
EPS (RMB)	0.51	0.49	0.66	0.83
EPS (HK\$)	0.56	0.53	0.71	0.91
Core EPS (RMB)	0.51	0.49	0.66	0.83
Core EPS (HK\$)	0.56	0.53	0.71	0.91
EPS Gth (%)	6.2	(4.6)	34.6	26.9
Core EPS Gth (%)	6.2	(4.6)	34.6	26.9
Diluted EPS (HK\$)	0.55	0.53	0.71	0.90
DPS (HK\$)	0.20	0.20	0.26	0.33
BV Per Share (HK\$)	7.80	8.14	8.67	9.33
PE (X)	14.0	14.7	10.9	8.6
CorePE (X)	14.0	14.7	10.9	8.6
P/Cash Flow (X)	4.5	3.9	5.1	4.2
P/Free CF (X)	5.8	6.4	8.7	7.0
EV/EBITDA (X)	4.2	3.5	2.7	2.1
Net Div Yield (%)	2.6	2.5	3.4	4.2
P/Book Value (X)	1.0	1.0	0.9	0.8
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	7.5	6.7	8.5	10.1
Earnings Rev (%):		(8)	(10)	New
Consensus EPS (RMB)		0.48	0.69	0.89
Other Broker Recs:		B:32	S:1	H:1

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

## Beefing up NEV strategy to drive growth

### Investment Thesis

**Room to strengthen NEV business strategy.** Zeekr, the premium EV brand of the group, shipped about 119k units of EVs in FY23, some 15% below its target of 140k units. But in 2023, Geely launched its mid-priced EV brand Galaxy and recorded deliveries of about 83.5k units from Jul-Dec 23, encouraging given the short operating history. The new brand boosted the group's total NEV sales to c.487.5k units, up 48% y-o-y. Excluding Galaxy's sales, the existing NEV business grew by c.23% y-o-y. For FY24, Geely aims to achieve 66% growth in NEV sales to about 812k units. The EV share accounted for c.29% in FY23 and is expected to cross 40% in FY24.

**Beefing up new model pipeline to support 2024 sales, but margin pressure remains in the near-term.** Geely plans to launch four models under Galaxy brand in the coming two years – L5 and E7 in 2Q24, E6 in 3Q24, and L9 in 2025. Also, the ramp up of Zeekr's three models – 001, 009, and Zeekr X – plus the new 007, should lift the group's NEV sales. Lynk & Co vehicle deliveries recovered 22% y-o-y in FY23 after an 18% contraction in FY22. While Geely has set its 2024 total vehicle shipments target at 1.9m units for the group (+13% y-o-y), the ongoing market competition could compress its vehicle margin. For instance, Zeekr cut the new model 001 ASP by 9%-12% shortly after it was launched to stay competitive.

**Market competition the main concern.** A pick-up in sales volume and recovery in vehicle margins are two key catalysts to the company's share price performance. The stock was being de-rated in 2023 due to the keen market competition and concerns of margin compression. In 1H23, GPM was 14.4% compared to 17%-20% pre-Covid. We expect the increase in sales volume and some stabilization of the vehicle market in 2025 to gradually lift GPM to c.15%+ by FY25.

**Cut TP to HK\$10.80,** rolling over to FY24F earnings and based on lower target PE of 15x (previous 18x) to reflect the macro uncertainties. We estimate Geely would post core net earnings growth of 28% in FY24. It is currently trading at 1x SD below the historical average PE. Maintain BUY, on attractive valuation and decent earnings growth.

### Key Risks

A hard landing of the Chinese economy and rising competition could impact vehicle sales and the GP margin recovery.

### At A Glance

Issued Capital (m shrs)	10,057
Mkt Cap (HKm/US\$m)	78,344 / 10,016
Major Shareholders (%)	
Proper Glory Holding, Inc.	26.2
Zhejiang Jirun Automobile Co., Ltd.	7.9
Free Float (%)	65.9
3m Avg. Daily Val. (US\$m)	41.6
GICS Industry: Consumer Discretionary / Automobiles & Components	

## Geely Automobile Holdings

### Company Background

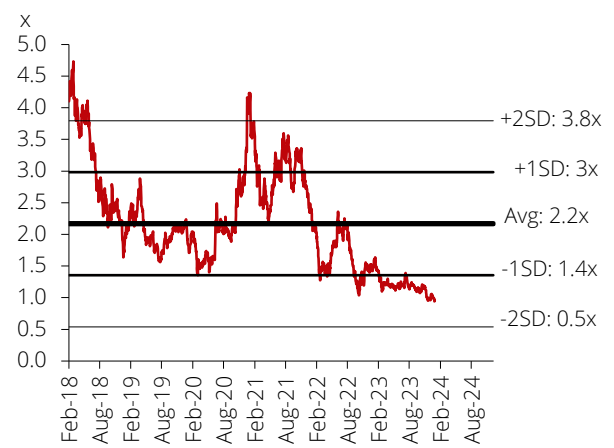
Geely Automobile Holdings Limited (Geely), through its subsidiaries, manufactures and sells automobiles and related components under the Geely and Lynk brands. To broaden its new energy vehicle (NEV) product offerings, Geely introduced the Geometry brand in 2019 and Galaxy in 2023.

### Historical PE and PB band

**Forward PE band (x)**



**PB band (x)**



Source: Thomson Reuters, DBS HK

## Geely Automobile Holdings

### Key Assumptions

FY Dec	2021A	2022A	2023F	2024F	2025F
Car sales ('000 units)	1,101.5	1,124.8	1,309.6	1,414.3	1,513.4
Blended ASP (RMB/unit)	79,615	109,162	103,704	100,593	98,581

Source: Company, DBS HK

### Segmental Breakdown (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
<b>Revenues (RMB m)</b>					
Auto mobile sales	87,697	122,783	148,734	192,406	203,331
Parts & components	8,798	8,779	9,394	10,145	10,957
Licensing of IP	1,275	1,657	1,822	1,913	2,009
Others	3,840	14,745	16,957	18,653	20,518
<b>Total</b>	<b>101,611</b>	<b>147,965</b>	<b>176,907</b>	<b>223,117</b>	<b>236,815</b>

Source: Company, DBS HK

### Income Statement (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Revenue	101,611	147,965	176,907	223,117	236,815
Cost of Goods Sold	(84,199)	(127,069)	(151,078)	(189,650)	(200,582)
<b>Gross Profit</b>	<b>17,412</b>	<b>20,896</b>	<b>25,828</b>	<b>33,468</b>	<b>36,233</b>
Other Opg (Exp)/Inc	(14,232)	(17,246)	(21,142)	(27,344)	(28,942)
<b>Operating Profit</b>	<b>3,180</b>	<b>3,650</b>	<b>4,686</b>	<b>6,123</b>	<b>7,291</b>
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	1,205	651	444	719	1,319
Net Interest (Exp)/Inc	280	380	51	201	223
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>4,665</b>	<b>4,682</b>	<b>5,182</b>	<b>7,043</b>	<b>8,834</b>
Tax	(312)	(32)	(616)	(885)	(1,052)
Minority Interest	494	611	457	554	700
Preference Dividend	(127)	(137)	(137)	(137)	(137)
<b>Net Profit</b>	<b>4,720</b>	<b>5,123</b>	<b>4,885</b>	<b>6,575</b>	<b>8,345</b>
Net Profit before Except.	4,720	5,123	4,885	6,575	8,345
EBITDA	11,278	12,620	14,937	18,393	21,890
<b>Growth</b>					
Revenue Gth (%)	10.3	45.6	19.6	26.1	6.1
EBITDA Gth (%)	(3.8)	11.9	18.4	23.1	19.0
Opg Profit Gth (%)	(40.6)	14.8	28.4	30.7	19.1
Net Profit Gth (%)	(12.5)	8.5	(4.6)	34.6	26.9
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	17.1	14.1	14.6	15.0	15.3
Opg Profit Margin (%)	3.1	2.5	2.6	2.7	3.1
Net Profit Margin (%)	4.6	3.5	2.8	2.9	3.5
ROAE (%)	7.5	7.5	6.7	8.5	10.1
ROA (%)	3.9	3.5	2.9	3.6	4.3
ROCE (%)	4.1	4.3	4.5	5.6	6.4
Div Payout Ratio (%)	36.0	36.4	37.0	36.8	36.6
Net Interest Cover (x)	NM	NM	NM	NM	NM

Source: Company, DBS HK

## Geely Automobile Holdings

### Interim Income Statement (RMB m)

FY Dec	1H2021	2H2021	1H2022	2H2022	1H2023
Revenue	45,032	56,579	58,184	89,781	73,182
Cost of Goods Sold	(37,273)	(46,926)	(49,708)	(77,361)	(62,641)
<b>Gross Profit</b>	<b>7,759</b>	<b>9,653</b>	<b>8,476</b>	<b>12,420</b>	<b>10,540</b>
Other Oper. (Exp)/Inc	(5,645)	(8,587)	(7,945)	(9,300)	(9,372)
<b>Operating Profit</b>	<b>2,114</b>	<b>1,066</b>	<b>531</b>	<b>3,119</b>	<b>1,169</b>
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	706	499	571	80	145
Net Interest (Exp)/Inc	101	179	215	166	161
Exceptional Gain/(Loss)	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>2,921</b>	<b>1,745</b>	<b>1,317</b>	<b>3,365</b>	<b>1,474</b>
Tax	(512)	199	(39)	6	(201)
Minority Interest	(28)	522	274	336	297
<b>Net Profit</b>	<b>2,381</b>	<b>2,466</b>	<b>1,552</b>	<b>3,708</b>	<b>1,571</b>
Net profit bef Except.	2,381	2,466	1,552	3,708	1,571
<b>Growth</b>					
Revenue Gth (%)	22.3	2.3	29.2	58.7	25.8
Opg Profit Gth (%)	0.4	(67.2)	(74.9)	192.6	120.2
Net Profit Gth (%)	3.7	(23.8)	(34.8)	50.4	1.2
<b>Margins</b>					
Gross Margins (%)	17.2	17.1	14.6	13.8	14.4
Opg Profit Margins (%)	4.7	1.9	0.9	3.5	1.6
Net Profit Margins (%)	5.3	4.4	2.7	4.1	2.1

Source: Company, DBS HK

## Geely Automobile Holdings

### Balance Sheet (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Net Fixed Assets	30,859	32,201	35,248	36,721	38,869
Invt in Associates & JVs	10,205	14,235	15,680	17,198	19,318
Other LT Assets	27,982	32,326	35,473	33,449	30,021
Cash & ST Invt	28,018	33,728	33,294	35,890	39,960
Inventory	5,522	10,822	14,069	16,883	18,740
Debtors	27,032	28,713	34,456	40,109	45,306
Other Current Assets	4,657	5,800	6,368	6,805	7,206
<b>Total Assets</b>	<b>134,341</b>	<b>157,826</b>	<b>174,587</b>	<b>187,055</b>	<b>199,421</b>
ST Debt	1,907	2,062	0	0	0
Creditors	31,549	41,477	51,846	55,994	59,354
Other Current Liab	26,895	25,414	30,231	33,202	35,842
LT Debt	1,901	8,758	9,696	10,696	11,696
Other LT Liabilities	1,869	3,919	3,919	3,919	3,919
Shareholder's Equity	68,606	75,130	78,287	83,190	89,256
Minority Interests	1,615	1,065	609	55	(646)
<b>Total Cap. &amp; Liab.</b>	<b>134,341</b>	<b>157,826</b>	<b>174,587</b>	<b>187,055</b>	<b>199,421</b>
Non-Cash Wkg. Capital	(21,233)	(21,555)	(27,184)	(25,399)	(23,943)
Net Cash/(Debt)	24,210	22,908	23,598	25,194	28,264
Debtors Turn (avg days)	92.7	68.8	65.2	61.0	65.8
Creditors Turn (avg days)	145.0	112.2	120.6	110.5	112.4
Inventory Turn (avg days)	21.7	25.1	32.2	31.7	34.7
Asset Turnover (x)	0.8	1.0	1.1	1.2	1.2
Current Ratio (x)	1.1	1.1	1.1	1.1	1.2
Quick Ratio (x)	0.9	0.9	0.8	0.9	0.9
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	74.4	32.5	72.2	56.1	59.9
Z-Score (X)	3.4	3.4	3.4	NA	NA

Source: Company, DBS HK

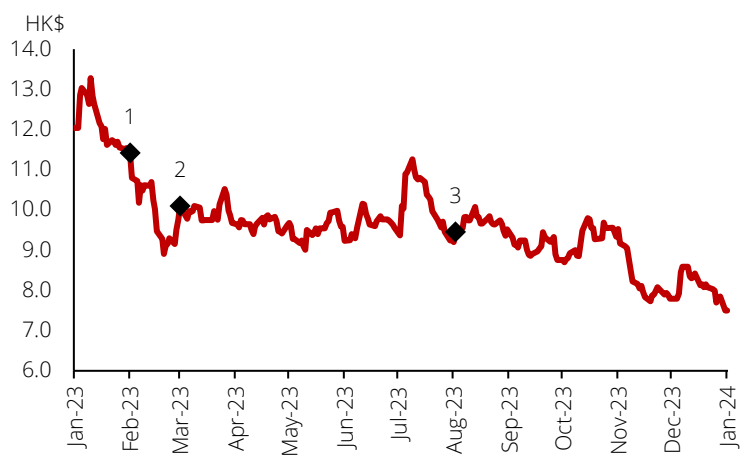
### Cash Flow Statement (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Pre-Tax Profit	4,665	4,682	5,182	7,043	8,834
Dep. & Amort.	6,893	8,318	9,806	11,551	13,280
Tax Paid	(1,197)	(2,082)	(616)	(885)	(1,052)
Assoc. & JV Inc/(loss)	(1,205)	(551)	(444)	(719)	(1,319)
(Pft)/ Loss on disposal of FAs	0	0	0	0	0
Chg in Wkg.Cap.	5,161	5,672	5,629	(1,785)	(1,456)
Other Operating CF	1,031	(20)	(1,282)	(984)	(1,055)
<b>Net Operating CF</b>	<b>15,348</b>	<b>16,018</b>	<b>18,274</b>	<b>14,221</b>	<b>17,232</b>
Capital Exp.(net)	(2,833)	(3,516)	(7,000)	(6,000)	(7,000)
Other Invt.(net)	(2,541)	(645)	0	0	0
Invt in Assoc. & JV	0	(1,812)	(1,000)	(800)	(800)
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	(1,785)	(6,157)	(8,333)	(4,408)	(4,361)
<b>Net Investing CF</b>	<b>(7,159)</b>	<b>(12,130)</b>	<b>(16,333)</b>	<b>(11,208)</b>	<b>(12,161)</b>
Div Paid	(1,677)	(1,833)	(1,867)	(1,808)	(2,416)
Chg in Gross Debt	0	88	938	1,000	1,000
Capital Issues	0	9	0	0	0
Other Financing CF	2,593	3,061	(1,447)	391	416
<b>Net Financing CF</b>	<b>916</b>	<b>1,325</b>	<b>(2,376)</b>	<b>(417)</b>	<b>(1,001)</b>
Currency Adjustments	(68)	114	0	0	0
Chg in Cash	9,037	5,327	(435)	2,596	4,070
Opg CFPS (RMB)	1.04	1.03	1.26	1.60	1.86
Free CFPS (RMB)	1.27	1.25	1.12	0.82	1.02

Source: Company, DBS HK

## Geely Automobile Holdings

### Target Price & Ratings 12-mth History



S.No.	Date	Closing Price	Target Price	Rating
1	23-Feb-23	HK\$11.38	HK\$18.40	BUY
2	23-Mar-23	HK\$9.76	HK\$16.80	BUY
3	24-Aug-23	HK\$9.20	HK\$13.20	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: 25 Jan 2024 09:00:38 (HKT)

Dissemination Date: 25 Jan 2024 09:26:32 (HKT)

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

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## Geely Automobile Holdings

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