

China / Hong Kong Company Update

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

25 Jan 2024

H: BUY

Last Traded Price (23 Jan 2024): HK\$3.16 (HSI : 15,354)
Price Target 12-mth: HK\$4.10 (29.7% upside) (Prev HK\$5.60)

A: HOLD

Last Traded Price (23 Jan 2024): RMB8.12 (CSI300 Index : 3,232)
Price Target 12-mth: RMB8.90 (9.6% upside) (Prev RMB10.00)

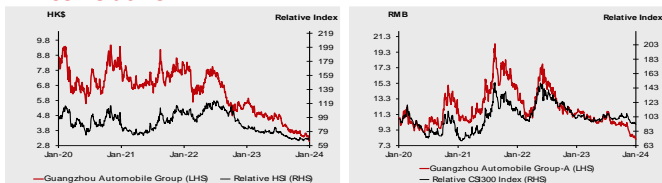
Analyst

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What's New

- GAC AION posted the second highest sales growth in the NEV industry in FY23; expect healthy sales in FY24
- Japanese JV sales volume fell in FY23; rushing towards electric fleet to raise profile
- Share price impacted by weak profit contribution from Japanese JV
- Maintain BUY for strong self-brand business and compelling valuation; new TP based on lower target PE FY24F due to macro uncertainties

Price Relative



Forecasts and Valuation (H Shares)

FY Dec (RMBm)	2022A	2023F	2024F	2025F
Turnover	110,006	137,825	163,011	186,625
EBITDA	13,926	13,078	14,606	16,187
Pre-tax Profit	7,377	5,465	6,241	6,859
Net Profit	7,983	5,643	6,446	6,853
Net Pft (Pre Ex) (core profit)	7,983	5,643	6,446	6,853
Net Profit Gth (Pre-ex) (%)	6.3	(29.3)	14.2	6.3
EPS (RMB)	0.77	0.54	0.62	0.66
EPS (HK\$)	0.84	0.59	0.67	0.72
Core EPS (RMB)	0.77	0.54	0.62	0.66
Core EPS (HK\$)	0.84	0.59	0.67	0.72
EPS Gth (%)	5.2	(29.8)	14.2	6.3
Core EPS Gth (%)	5.2	(29.8)	14.2	6.3
Diluted EPS (HK\$)	0.84	0.59	0.67	0.72
DPS (HK\$)	0.26	0.18	0.20	0.22
BV Per Share (HK\$)	11.93	12.26	12.74	13.24
PE (X)	3.8	5.4	4.7	4.4
CorePE (X)	3.8	5.4	4.7	4.4
P/Cash Flow (X)	nm	nm	nm	32.0
P/Free CF (X)	nm	nm	nm	nm
EV/EBITDA (X)	1.4	1.8	2.1	1.9
Net Div Yield (%)	8.4	5.6	6.4	6.8
P/Book Value (X)	0.3	0.3	0.2	0.2
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE(%)	7.8	4.9	5.4	5.5

Earnings Rev (%): (24) (15) New
Consensus EPS (RMB) 0.54 0.62 0.70
Other Broker Recs: B:21 S:1 H:5

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

Self-brand the shining star

Investment Thesis

Self-brand EV unit continues to shine in 2024. Guangzhou Auto Company (GAC) has announced its 2024 vehicle sales target of c.2.75m, with 10% growth y-o-y; its self-brand aiming to achieve approximately 1.1m units, a 22% expansion. Production optimisation and a favourable cost environment are expected to lift the NEV business's (Trumpchi and AION brands) FY24 profitability. Also, GAC AION's move to enter the Rmb200-300k price segment under its HYPER brand should lend support to its margin in the medium term. GAC AION recorded a 125% increase in NEV sales to c.480k units in 2023, the second best in the NEV industry.

Japanese JVs rushing to electrify fleet. 2023 has been a challenging year for the Honda and Toyota JVs, with sales declining 13.7% and 5.5% y-o-y, respectively. The Japanese partners are rolling out new EV models in 2024 to raise sales profile. GAC-Toyota debuted Bozhi, its EV brand, and its first model, Bozhi 4X, during the Guangzhou auto show. GAC-Toyota plans to launch two EV models to boost EV sales. GAC-Honda also plans a pure electric crossover, e:NP2, for launch in 1H24, and will focus on cost reduction initiatives and after-sales service to support the growth of its EV business.

Market generally tracks Japanese JV performance. Toyota's and Honda's weak vehicle sales is the key drag on GAC's share price, especially when both are slow in their electrification strategy, which is why their market share is being marginalised. Since GAC derives the bulk of its earnings from the two Japanese JVs, recovery in the JVs' earnings (1H23 contribution plunged c.36% y-o-y) is critical to GAC's share price performance.

Attractive valuation given strong growth potential of NEV unit, maintain BUY.

The stock is currently trading at 2 SD below the historical average PE. We rolled over to FY24F to arrive at a new TP of HK\$4.10, pegged to 6x PE (previously: 7x rolling PE) to factor in the market challenges faced by the Japanese JVs.

Key Risks

Weakness in the Japanese JVs and a slowdown of the vehicle market are the key earnings risks.

At A Glance

Issued Capital - H shares (m shs)	3,099
- Non H shrs (m shs)	7,386
H shs as a % of Total	30
Total Mkt Cap (HK\$/US\$m)	75,186 / 9,612
Major Shareholders (%)	
Guangzhou Automobile Industry Group Co., Ltd.	70.4
Guangzhou Huiyin Tianyue Equity Inv Fund Mgt Co., Ltd.	5.4
Major H Shareholders (As % of H shares)	
Guangzhou Automobile Industry Group Co., Ltd.	9.7
H Shares-Free Float (%)	90.3
3m Avg. Daily Val. (US\$m)	5.5
GICS Industry: Consumer Discretionary / Automobiles & Components	

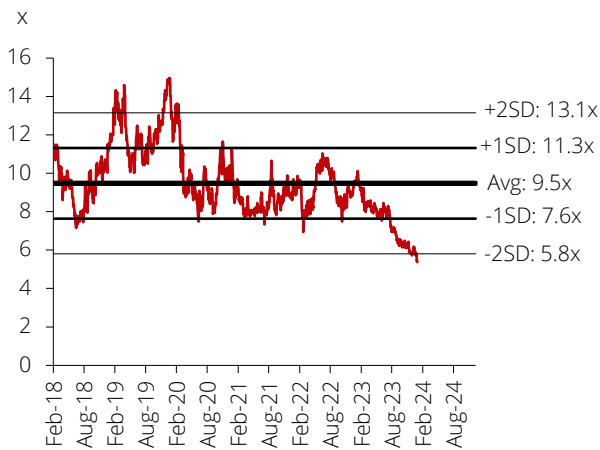
Guangzhou Automobile Group

Company Background

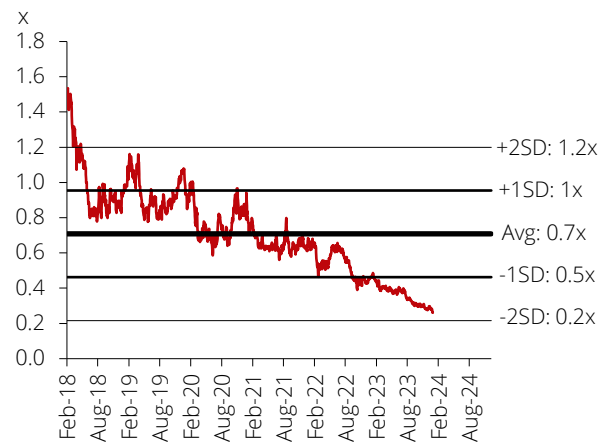
Guangzhou Automobile Group Company, Ltd. (GAC) manufactures, sells, and services automobiles. The company is also involved in automobile parts and components, and auto financing and related services for both domestic and overseas markets. It manufactures Toyota, Honda, Mitsubishi, and Fiat cars in collaboration 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

Historical PE and PB band

Forward PE band (x)



PB band (x)



Source: Thomson Reuters, DBS HK

Guangzhou Automobile Group

Key Assumptions

FY Dec	2021A	2022A	2023F	2024F	2025F
Trumpchi sales (units)	324,201	362,548	406,505	439,025	469,757
GAC AION	120,155	271,156	480,003	624,003	748,804
ASP (Rmb'000)	110.7	124.1	117.9	120.3	122.7

Source: Company, DBS HK

Segmental Breakdown (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Revenues (RMB m)					
Passenger vehicles	49,180	78,672	104,554	127,880	149,522
Commercial svc	21,110	23,932	25,129	26,385	27,704
Auto parts & others	3,188	3,831	4,214	4,425	4,646
Financial services & others	2,198	3,571	3,928	4,321	4,753
Total	75,676	110,006	137,825	163,011	186,625
Gross profit					
Passenger vehicles	1,313	865	1,568	3,197	5,233
Commercial svc	1,269	1,802	1,759	1,847	1,939
Auto parts & others	161	286	295	310	325
Financial services & others	1,156	1,503	1,964	2,160	2,377
Total	3,899	4,457	5,586	7,514	9,874

Source: Company, DBS HK

Income Statement (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Revenue	75,676	110,006	137,825	163,011	186,625
Cost of Goods Sold	(71,777)	(105,550)	(132,238)	(155,497)	(176,751)
Gross Profit	3,899	4,457	5,586	7,514	9,874
Other Opng (Exp)/Inc	(7,782)	(11,285)	(10,499)	(12,692)	(14,814)
Operating Profit	(3,883)	(6,829)	(4,912)	(5,177)	(4,940)
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	11,404	14,065	10,339	11,373	11,778
Net Interest (Exp)/Inc	(109)	140	38	45	21
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	7,412	7,377	5,465	6,241	6,859
Tax	154	536	100	120	(100)
Minority Interest	(55)	71	78	85	94
Preference Dividend	0	0	0	0	0
Net Profit	7,511	7,983	5,643	6,446	6,853
Net Profit before Except.	7,511	7,983	5,643	6,446	6,853
EBITDA	13,239	13,926	13,078	14,606	16,187
Growth					
Revenue Gth (%)	19.8	45.4	25.3	18.3	14.5
EBITDA Gth (%)	22.5	5.2	(6.1)	11.7	10.8
Opg Profit Gth (%)	0.3	75.9	(28.1)	5.4	(4.6)
Net Profit Gth (%)	25.9	6.3	(29.3)	14.2	6.3
Margins & Ratio					
Gross Margins (%)	5.2	4.1	4.1	4.6	5.3
Opg Profit Margin (%)	(5.1)	(6.2)	(3.6)	(3.2)	(2.6)
Net Profit Margin (%)	9.9	7.3	4.1	4.0	3.7
ROAE (%)	8.6	7.8	4.9	5.4	5.5
ROA (%)	5.1	4.6	2.9	3.2	3.3
ROCE (%)	(3.5)	(5.2)	(3.2)	(3.2)	(2.9)
Div Payout Ratio (%)	30.6	31.5	30.0	30.0	30.0
Net Interest Cover (x)	(35.5)	NM	NM	NM	NM

Source: Company, DBS HK

Guangzhou Automobile Group

Interim Income Statement (RMB m)

FY Dec	1H2021	2H2021	1H2022	2H2022	1H2023
Revenue	34,572	41,104	48,689	61,318	61,911
Cost of Goods Sold	(32,957)	(38,820)	(46,553)	(58,996)	(59,936)
Gross Profit	1,615	2,284	2,136	2,321	1,975
Other Oper. (Exp)/Inc	(3,653)	(4,129)	(4,483)	(6,802)	(5,062)
Operating Profit	(2,039)	(1,844)	(2,348)	(4,481)	(3,088)
Other Non Opg (Exp)/Inc	705	747	837	399	676
Associates & JV Inc	5,697	4,314	7,716	5,444	4,930
Net Interest (Exp)/Inc	(141)	(26)	(137)	(53)	(149)
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	4,222	3,190	6,068	1,309	2,370
Tax	131	23	70	465	256
Minority Interest	(16)	(38)	(64)	135	341
Net Profit	4,337	3,175	6,074	1,909	2,966
Net profit bef Except.	4,337	3,175	6,074	1,909	2,966
Growth					
Revenue Gth (%)	34.8	9.6	40.8	49.2	27.2
Opg Profit Gth (%)	15.9	(12.7)	15.2	142.9	31.5
Net Profit Gth (%)	87.1	(12.9)	40.1	(39.9)	(51.2)
Margins					
Gross Margins (%)	4.7	5.6	4.4	3.8	3.2
Opg Profit Margins (%)	(5.9)	(4.5)	(4.8)	(7.3)	(5.0)
Net Profit Margins (%)	12.5	7.7	12.5	3.1	4.8

Source: Company, DBS HK

Guangzhou Automobile Group

Balance Sheet (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Net Fixed Assets	19,476	20,761	26,067	29,977	33,350
Invt in Associates & JVs	36,927	37,811	36,806	40,108	42,891
Other LT Assets	36,656	39,711	35,755	31,433	26,711
Cash & ST Invt	24,036	39,524	39,767	38,510	35,392
Inventory	8,111	12,362	13,598	14,958	15,706
Debtors	25,110	31,597	37,916	43,603	47,964
Other Current Assets	3,935	8,309	8,309	8,309	8,309
Total Assets	154,251	190,075	198,218	206,898	210,323
ST Debt	9,889	13,813	13,813	13,813	13,813
Creditors	38,490	42,069	41,228	40,403	42,019
Other Current Liab	753	807	854	865	898
LT Debt	7,527	5,697	10,697	15,697	12,697
Other LT Liabilities	4,943	5,387	5,452	5,520	5,591
Shareholder's Equity	90,313	113,289	117,239	121,751	126,548
Minority Interests	2,335	9,014	8,936	8,851	8,757
Total Cap. & Liab.	154,251	190,075	198,218	206,899	210,323
Non-Cash Wkg. Capital	(2,088)	9,392	17,741	25,603	29,061
Net Cash/(Debt)	6,620	20,014	15,257	8,999	8,881
Debtors Turn (avg days)	107.9	94.1	92.0	91.3	89.5
Creditors Turn (avg days)	204.3	148.7	122.0	101.3	89.9
Inventory Turn (avg days)	40.7	37.8	38.0	35.4	33.4
Asset Turnover (x)	0.5	0.6	0.7	0.8	0.9
Current Ratio (x)	1.2	1.6	1.8	1.9	1.9
Quick Ratio (x)	1.0	1.3	1.4	1.5	1.5
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	35.8	41.1	36.7	27.1	30.2
Z-Score (X)	1.8	1.8	1.8	NA	NA

Source: Company, DBS HK

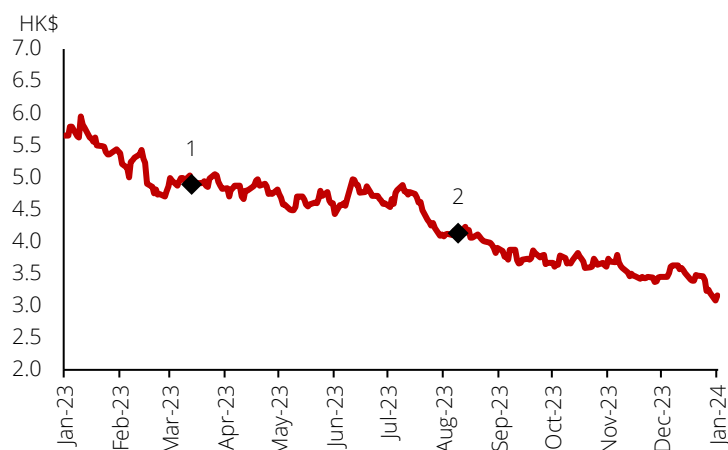
Cash Flow Statement (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Pre-Tax Profit	7,412	7,377	5,465	6,241	6,859
Dep. & Amort.	5,719	6,690	7,651	8,411	9,349
Tax Paid	(320)	(338)	120	100	(100)
Assoc. & JV Inc/(loss)	(11,404)	(14,065)	(10,339)	(11,373)	(11,778)
(Pft)/ Loss on disposal of FAs	0	0	0	0	0
Chg in Wkg.Cap.	(8,134)	(9,458)	(8,304)	(7,773)	(3,387)
Other Operating CF	237	3,157	0	0	0
Net Operating CF	(6,491)	(6,638)	(5,408)	(4,395)	943
Capital Exp.(net)	(6,243)	(8,014)	(9,000)	(8,000)	(8,000)
Other Invt.(net)	0	0	0	0	0
Invt in Assoc. & JV	(3,689)	(1,333)	(500)	(500)	(500)
Div from Assoc & JV	0	1	0	0	0
Other Investing CF	17,166	7,754	11,844	8,572	9,495
Net Investing CF	7,235	(1,592)	2,344	72	995
Div Paid	(2,135)	(2,485)	(1,693)	(1,934)	(2,056)
Chg in Gross Debt	2,574	5,986	5,000	5,000	(3,000)
Capital Issues	114	247	0	0	0
Other Financing CF	224	21,432	0	0	0
Net Financing CF	777	25,181	3,307	3,066	(5,056)
Currency Adjustments	(76)	36	0	0	0
Chg in Cash	1,444	16,987	243	(1,257)	(3,118)
Opg CFPS (RMB)	0.16	0.27	0.28	0.32	0.42
Free CFPS (RMB)	(1.24)	(1.41)	(1.38)	(1.19)	(0.68)

Source: Company, DBS HK

Guangzhou Automobile Group

H Share - Target Price & Ratings 12-mth History



S.No.	Date	Closing Price	Target Price	Rating
1	4-Apr-23	HK\$5.03	HK\$8.20	BUY
2	31-Aug-23	HK\$4.15	HK\$5.60	BUY

Source: DBS HK

Analyst: Rachel Miu

A Share - Target Price & Ratings 12-mth History



S.No.	Date	Closing Price	Target Price	Rating
1	4-Apr-23	RMB11.14	RMB12.00	HOLD
2	31-Aug-23	RMB10.27	RMB10.00	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

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