

COMPANY RESULTS

Geely Auto (175 HK)

August Sales Up 39% yoy And Flat mom, In Line With Estimates

Geely's August sales spiked 39% yoy and remained flat mom at 122,635 units, in line with estimates. Looking ahead, management remains cautiously optimistic on the Sep-Dec 22 outlook on strong order flows and easing supply chain bottlenecks. The Leishen series will emerge as a new growth driver, but margins will probably come under pressure due to the lower profitability of the Leishen series vs ICE-cars. We keep our 2022-24 EPS estimates unchanged. Maintain HOLD. Target price: HK\$15.50.

WHAT'S NEW

- **Geely posted in-line August wholesales shipment of 122,635 units (+39% yoy/flat mom)**, bringing 8M22 shipment to 859,110 units (+5% yoy), vs Geely's full-year 2022 sales target of 1.65m units (+24% yoy) and our estimate of 1.45m units (+9% yoy). It will take an average monthly sales volume of >197,700 units and >147,700 units from Sep 22 to Dec 22 for Geely to attain its sales target of 1.65m units and our sales estimate of 1.45m units for 2022.
- **EVs as a percentage of total sales volume topped the record at 31% in Aug 22.** Geely's August electric vehicle (EV) sales spiked by 410% yoy and 17% mom to 37,500 units, including 7,166 units of Zeekr (+43% mom), 17,489 units of Geometry (+230% yoy/+28% mom) and 12,845 units under the Geely and Lynk & Co brands. Geely delivered 179,238 units of EVs in 8M22 (+392% yoy), including 136,015 units of battery electric vehicles (BEV) and 43,223 units of plug-in hybrid electric vehicles (PHEV). This compares to Geely's full-year EV sales target of 330,000 units, including 230,000 units of BEVs and 100,000 units of PHEVs.
- **Hi-X series' August sales 45% lower than expected.** The sales of the Hi-X (Leishen) models, including the PHEV and hybrid electric vehicle (HEV) versions of Emgrand L, Xingyue L and Lynk & Co, came in at 11,100 units (+10% mom), of which 6,000 units were Emgrand L, much lower than management's guidance of 20,000 units, due to the capacity bottleneck of gearboxes.
- **Power crunch caused August production volume to drop by less than 10%.** According to management, the power crunch in Sichuan, Chongqing and other regions caused less than a 10% loss in production volume in Aug 22.

STOCK IMPACT

- **Management remains cautiously optimistic on the Sep-Dec 22 outlook** on resilient demand and easing capacity bottlenecks. The gradual rollback of stimulus for ICE-cars before end-22 will likely trigger last-minute purchases. Orders are coming through strongly. Stripping out Zeekr, Geely had over 150,000 units of orders on hand as of end-Aug 22. The inventory-to-sales ratio stood at only around one month as of end-Aug 22.

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2020	2021	2022F	2023F	2024F
Net turnover	92,114	101,611	125,500	174,600	223,100
EBITDA	10,841	9,989	10,760	12,710	16,566
Operating profit	5,350	3,096	3,239	5,081	8,806
Net profit (rep./act.)	5,534	4,847	5,307	7,779	9,334
Net profit (adj.)	5,527	4,769	5,307	7,779	9,334
EPS (fen)	57.9	48.6	53.0	77.6	93.1
PE (x)	21.5	25.6	23.4	16.0	13.3
P/B (x)	2.7	2.6	2.5	2.2	1.9
EV/EBITDA (x)	14.3	14.7	13.4	10.2	7.3
Dividend yield (%)	1.3	1.4	1.3	1.9	2.3
Net margin (%)	6.0	4.8	4.2	4.5	4.2
Net debt/(cash) to equity (%)	(26.7)	(38.1)	(38.5)	(51.3)	(57.1)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.	n.a.
ROE (%)	9.4	7.2	7.5	10.3	11.4
Consensus net profit	-	-	5,590	8,423	11,177
UOBKH/Consensus (x)	-	-	0.95	0.92	0.84

Source: Geely, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	HK\$14.28
Target Price	HK\$15.50
Upside (Downside)	8.5%

COMPANY DESCRIPTION

Geely manufactures and sells automobiles under its proprietary brands GEELY, Geometry, Lynk & Co, Livan and Zeekr in China and overseas.

STOCK DATA

GICS sector	Automobile
Bloomberg ticker:	175 HK
Shares issued (m):	10,018
Market cap (HK\$m):	143,063
Market cap (US\$m):	18,460
3-mth avg daily t'over (US\$m):	348

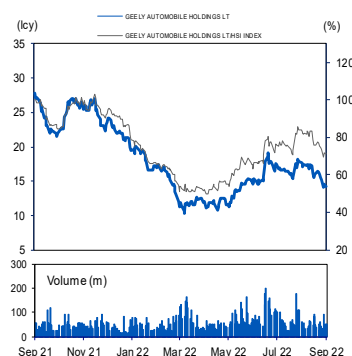
Price Performance (%)

52-week high/low		HK\$29.25/HK\$10.00		
1mth	3mth	6mth	1yr	YTD
(20.0)	(20.0)	18.0	(50.2)	(33.0)

Major Shareholders

Mr Li Shufu	57.98%
FY22 NAV/Share (HK\$)	5.74
FY22 Net Cash/Share (HK\$)	3.22

PRICE CHART



Source: Bloomberg

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• **New round of lockdown to affect deliveries in first half of September.** Management indicated that the recent COVID-19 lockdowns in 33 cities will affect product deliveries in the first half of Sep 22. However, they expect the deliveries to recover in the second half of Sep 22 with the lifting of lockdowns. As such, they still expect positive mom sales growth in Sep 22.

• **Hi-X series to emerge as growth driver.** Since Jul 22, Geely has been delivering its long-awaited Hi-X series (PHEV and HEV), which boasts much better fuel efficiency compared to internal combustion engine (ICE) cars. The sales growth of the Hi-X series in August was still being capped by the capacity bottleneck of gearboxes, but the bottleneck will ease from Sep 22 along with capacity expansion. When it comes to product line-ups, Geely will roll out the 55km-range PHEV version of Emgrand L with the fast-charging feature and the 200km-range PHEV version of Xingyue L (priced at over Rmb200,000) by 2023. With regard to distribution channels, Geely plans to increase the points of sales for the Hi-X series from 500 to 600 by end-22.

Geely plans to substitute ICE car models with its Hi-X hybrid models – it has ceased production of the ICE version of Emgrand L since Jul 22. Geely expects its Hi-X hybrid models to take market share from the ICE-car models of JV brands. According to Geely's projection, BEVs, PHEVs and ICE-cars will respectively make up 25-30%, 20-25% and 50% of total car sales by 2025, vs 19%/6%/75% in 7M22. That implies tremendous potential for Geely's Hi-X series, despite the competition with BYD Qin DM.

Management maintains the 2022 Hi-X series' sales target at 150,000 units. On a monthly basis, management expects the monthly sales volume of Hi-X series to grow to 20,000 units/30,000 units/60,000 units in Sep 22/4Q22/mid-23 respectively, along with the expansion of production capacity. This compares to Emgrand ICE's monthly sales of only 3,000-5,000 units. We estimate the Hi-X series sales volume at 150,000 units/360,000 units/600,000 units in 2022-24, representing 10%/19%/27% of Geely's total sales volume.

• **Lower margins for Hi-X series, which the market has not fully discounted.** The Hi-X series has not reached critical mass in sales volume, and thus its profitability will remain much lower than that of ICE-cars. At full capacity, the Hi-X series will have a profitability of not less than that of ICE-cars. Product-wise, the Xingyue L PHEV to be launched in 2023 will have higher margins than those of Emgrand L.

• **Livan unlikely to contribute significantly to Geely's sales and earnings in 2022-24.** The new brand Livan targets the business-to-business (B2B) market on the back of the battery swap model. The target customers are the ride-hailing companies, eg Caocao Ride owned by Chairman Li Shufu. In 2023, Livan will roll out new model(s) for the business-to-consumer (B2C) market. Geely has built 100 battery swap stations for Livan in core cities. We expect Livan to only contribute 50,000 units/60,000 units/70,000 units in sales volume in 2022-24, representing 3-4% of Geely's total sales volume.

• **Zeekr's growth driven by strong order flows, easing chip shortage and new product launch.** Zeekr registered over 10,000 units of order inflow in Aug 22, due to the improvement in software and operating system (OS) of Zeekr 001. Management expects Zeekr's sales to grow mom in Sep 22 with easing chip shortage, eg the camera chips from the US. Management keeps 2022 sales target for Zeekr at 70,000 units. Going forward, Zeekr's sales will be driven by new model launches. Zeekr will unveil the long-awaited Zeekr 009 in 2H22 and kickstart the deliveries before end-22. We keep estimates on Zeekr's 2022-24 sales volume at 70,000/140,000/250,000 units respectively, representing 5%/7%/11% of Geely's total sales volume.

• **We keep our sales volume estimates for 2022-24 at 1.45m units/1.90m units/2.25m units respectively.** We expect EVs' share in sales volume mix (including Geometry, Livan, Zeekr and the Hi-X series PHEVs) to rise from 26% in 2022 to 37%/49% in 2023/24 respectively.

• **We maintain our EBIT margin assumptions for 2022-24 at 2.6%/2.9%/3.9% respectively** (vs 3.0% in 2021), lower than consensus estimates of 3.45%/4.52%/5.28%, as we have factored in the dilution effect from the increasing share of the lower-margin Hi-X series and EV models.

EARNINGS REVISION/RISK

• **We maintain our 2022-24 net profit forecasts at Rmb5,307m/Rmb7,779m/Rmb9,334m respectively.** Our 2022-24 earnings estimates are 5%/8%/16% below consensus', based on our lower margin assumptions.

VALUATION/RECOMMENDATION

• **Maintain HOLD and target price of HK\$15.50,** based on 17x 2023F PE (on a par with historical mean one-year forward PE). Entry price: HK\$13.00.

AUG 22 SALES VOLUME

	Aug 22	yoy % chg	mom % chg	8M22	yoy % chg
Geely brand	95,992	16.6	(1.2)	693,460	1.1
- Models excl. Geometry	78,503	1.9	(6.0)	607,857	(8.1)
- Geometry	17,489	230.0	28.3	85,603	255.5
Lynk & Co	15,098	150.0	0.6	107,363	(18.7)
Zeekr	7,166	n.a.	42.7	31,198	n.a.
Livan	4,379	n.a.	(19.2)	27,089	n.a.
Total	122,635	38.8	0.0	859,110	5.0
BEV	28,030	428.9	26.4	136,015	464.8
PHEV	9,470	360.8	(4.0)	43,223	249.8
EV	37,500	409.9	17.1	179,238	391.9
ICE-cars	85,135	5.1	(6.0)	679,872	(13.0)
Total	122,635	38.8	0.0	859,110	5.0

Source: Geely

EMGRAND L HI-X



Source: Geely

XINGYUE L HI-X



Source: Geely

PROFIT & LOSS

Year to 31 Dec (Rmbm)	2021	2022F	2023F	2024F
Net turnover	101,611	125,500	174,600	223,100
EBITDA	9,989	10,760	12,710	16,566
Depreciation & amortization	2,668	2,864	2,867	3,145
EBIT	3,096	3,239	5,081	8,806
Total other non-operating income	85	-	-	-
Associate contributions	1,205	1,302	1,600	1,798
Net interest income/(expense)	280	238	330	466
Pre-tax profit	4,665	4,779	7,011	11,070
Tax	(312)	(717)	(1,052)	(1,661)
Minorities	494	1,245	1,820	(75)
Net profit	4,847	5,307	7,779	9,334
Net profit (recurrent)	4,769	5,307	7,779	9,334

BALANCE SHEET

Year to 31 Dec (Rmbm)	2021	2022F	2023F	2024F
Fixed assets	30,859	30,795	30,928	36,783
Other LT assets	38,187	41,232	42,070	43,253
Cash/ST investment	28,014	29,683	42,162	50,644
Other current assets	37,282	43,788	60,860	77,673
Total assets	134,341	145,498	176,020	208,353
ST debt	1,907	1,907	1,907	1,907
Other current liabilities	58,444	67,237	93,393	118,649
LT debt	-	-	-	-
Other LT liabilities	1,869	1,869	1,869	1,869
Shareholders' equity	68,606	72,214	78,401	85,402
Minority interest	1,615	370	(1,450)	(1,374)
Total liabilities & equity	134,341	145,498	176,020	208,353

CASH FLOW

Year to 31 Dec (Rmbm)	2021	2022F	2023F	2024F
Operating	15,348	12,330	20,742	23,349
Pre-tax profit	4,665	4,779	7,011	11,070
Tax	(1,197)	(717)	(1,052)	(1,661)
Depreciation/amortization	2,668	2,864	2,867	3,145
Working capital changes	5,161	2,287	9,083	8,444
Other operating cashflows	4,052	3,117	2,832	2,351
Investing	(7,159)	(8,825)	(6,533)	(12,397)
Capex	(2,833)	(2,800)	(3,000)	(9,000)
Investments	(5,807)	(6,400)	(4,000)	(4,000)
Proceeds from sale of assets	-	-	-	-
Others	1,482	375	467	603
Financing	916	(1,837)	(1,729)	(2,471)
Dividend payments	(1,611)	(1,699)	(1,592)	(2,334)
Issue of shares	31	-	-	-
Proceeds from borrowings	-	-	-	-
Others/interest paid	2,497	(137)	(137)	(137)
Net cash inflow (outflow)	9,105	1,669	12,479	8,482
Beginning cash & cash equivalent	18,977	28,014	29,683	42,162
Changes due to forex impact	(68)	-	-	-
Ending cash & cash equivalent	28,014	29,683	42,162	50,644

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	9.8	8.6	7.3	7.4
Pre-tax margin	4.6	3.8	4.0	5.0
Net margin	4.8	4.2	4.5	4.2
ROA	3.9	3.8	4.8	4.9
ROE	7.2	7.5	10.3	11.4
Growth				
Turnover	10.3	23.5	39.1	27.8
EBITDA	(7.9)	7.7	18.1	30.3
Pre-tax profit	(27.6)	2.5	46.7	57.9
Net profit	(12.4)	9.5	46.6	20.0
Net profit (adj.)	(13.7)	11.3	46.6	20.0
EPS	(19.4)	9.0	46.6	20.0
Leverage				
Debt to total capital	1.4	1.3	1.1	0.9
Debt to equity	2.8	2.6	2.4	2.2
Net debt/(cash) to equity	(38.1)	(38.5)	(51.3)	(57.1)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.

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