

## COMPANY RESULTS

### Geely Auto (175 HK)

2023: Results Beat On Margins; Upgrade To BUY

Geely's 2023 core net profit came in above estimates at Rmb5,693m (+74% yoy). The earnings beat lies in ASP and margins. Looking ahead, we expect Geely's margin to be underpinned by the turnaround of Zeekr and ramp-up of sales of Galaxy and Lynk & Co. We lift 2024-25 net profit forecasts from Rmb4.0b/Rmb4.4b to Rmb7.4b/Rmb8.2b respectively and introduce 2026 net profit forecast of Rmb9.5b. Upgrade from SELL to BUY. Raise target price from HK\$6.00 to HK\$11.00.

#### 2023 RESULTS

Year to 31 Dec (Rmb)	2023	yoy % chg	2H23	yoy % chg	hoh % chg	Comments
Sales volume ('000 units)	1,687	17.7	1,009	23.1	48.8	
ASP (Rmb'000)	104.8	2.1	107.3	(3.7)	6.1	Beat estimate on sales mix optimisation.
Net profit per vehicle (Rmb'000)	3.4	47.5	4.1	51.6	73.3	
Revenue	179,204	21.1	106,022	18.1	44.9	
Gross profit	27,415	31.2	16,875	35.9	60.1	
Gross margin (%)	15.3	1.2	15.9	2.1	1.5	Beat estimate on better scale economies.
EBIT	5,300	178.9	4,131	201.7	253.5	
EBIT margin (%)	3.0	1.7	3.9	2.4	2.3	
Shared results of associates	365	n.a.	233	n.a.	75.3	
Shared results of JVs	234	(71.9)	222	9.2	1,746.1	
Net profit	5,308	0.9	3,738	0.8	138.0	
- Net profit excluding Zeekr	5,970	(7.4)	3,933	n.a.	93.0	
- Zeekr	(662)	(44.3)	(195)	n.a.	(58.2)	Zeekr's net loss narrowed in 2023.
Net profit (adj)	5,693	73.6	4,102	86.6	157.8	Core net profit surged by 74% in 2023.
Operating cash flow	22,342	40.7	11,643	91.7	8.8	
FCF	4,564	95.9	3,122	n.a.	116.6	

Source: Geely

#### RESULTS

- **2023 core earnings beat our/consensus estimates by 28%/7%.** Geely posted upbeat 2023 results with net profit growing 1% yoy to Rmb5,308m. Stripping out exceptional items, core net profit spiked by 74% yoy to Rmb5,693m in 2023. This implies a 138%/158% hoh spike in net profit and core net profit to Rmb3,738m/Rmb4,102m respectively. The earnings beat lies in ASP and margins. ASP hiked by 2% yoy to Rmb104,800 in 2023, and by 6% hoh to Rmb107,300 in 2H23, due to optimisation of sales mix. Gross margin soared 1.2ppt yoy to 15.3% in 2023, and by 1.5ppt hoh to 15.9% in 2H23, due to improved economies of scale and cost saving measures. The gross margin improvement in 2023 was driven by the EV segment. Zeekr's gross margin tripled from 5% in 2022 to 15% in 2023. EBIT margin surged by 1.7ppt yoy to 3.0% in 2023, and by 2.3ppt hoh to 3.9% in 2H23.

#### KEY FINANCIALS

Year to 31 Dec (Rmbm)	2022	2023	2024F	2025F	2026F
Net turnover	147,965	179,204	199,640	209,350	234,216
EBITDA	1,489	646	1,500	1,500	1,500
Operating profit	1,900	5,300	6,598	6,807	7,775
Net profit (rep./act.)	5,260	5,308	7,373	8,187	9,483
Net profit (adj.)	3,279	5,693	7,373	8,187	9,483
EPS (fen)	32.7	56.6	73.3	81.4	94.3
PE (x)	24.6	14.2	10.9	9.9	8.5
P/B (x)	1.5	1.4	1.4	1.3	1.2
EV/EBITDA (x)	5.9	3.9	3.6	3.6	3.2
Dividend yield (%)	2.3	2.5	3.2	3.5	0.0
Net margin (%)	2.2	3.2	3.7	3.9	4.0
Net debt/(cash) to equity (%)	(26.9)	(35.6)	(30.3)	(24.1)	(22.0)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.	n.a.
ROE (%)	4.6	7.3	8.8	9.0	9.7
Consensus net profit	-	-	7,044	9,303	n.a.
UOBKH/Consensus (x)	-	-	1.05	0.88	n.a.

Source: Geely, Bloomberg, UOB Kay Hian

## BUY

(Upgraded)

Share Price	HK\$8.83
Target Price	HK\$11.00
Update	+24.6%
(Previous TP)	HK\$6.00)

#### COMPANY DESCRIPTION

Geely manufactures and sells automobiles under its proprietary brand GEELY and Lynk & Co in China and overseas.

#### STOCK DATA

GICS sector	Automobile
Bloomberg ticker:	175 HK
Shares issued (m):	10,057
Market cap (HK\$m):	88,803
Market cap (US\$m):	11,458
3-mth avg daily t'over (US\$m):	87.6

#### Price Performance (%)

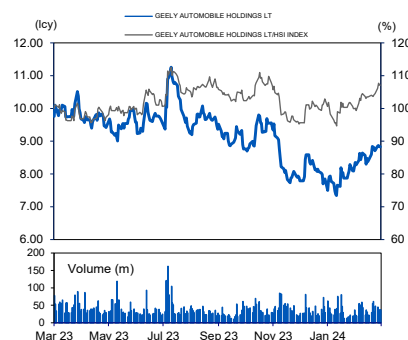
52-week high/low					HK\$17.94/HK\$8.30
1mth	3mth	6mth	1yr	YTD	
7.4	11.2	(5.7)	(7.1)	5.8	

#### Major Shareholders

Mr Li Shufu	57.98
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FY24 NAV/Share (HK\$)	6.35
FY24 Net Cash/Share (HK\$)	2.89

#### PRICE CHART



Source: Bloomberg

#### ANALYST(S)

**Ken Lee**  
+852 2236-6760  
ken.lee@uobkayhian.com.hk

**Bella Lu**  
+86 21 5404-7225 ext. 810  
bellalu@uobkayhianb.com

#### STOCK IMPACT

- **We raise 2024-25 sales volume estimates by 6%/8% to 1.90m units/2.15m units respectively and introduce 2026 sales volume estimate of 2.43m units**, implying 13% CAGR, based on stronger-than-expected sales ytd, especially Zeekr and Lynk & Co. This compares to management's 2024 sales target of 1.9m units (+13% yoy), including 1.09m units (-8% yoy) of ICE-cars and 800,000 units (+64% yoy) of EVs. The expected buoyant growth in Geely's EV sales will be driven by a strong product pipeline. Zeekr targets 230,000 units (+94% yoy) in sales for 2024, based on the ramp-up of sales of Zeekr 007 that debuted in late-23 and the launches of three all-new models. Additionally, each of Galaxy and Lynk & Co will roll out three new models in 2024. Also boosting sales will be export. The share of export in total sales volume will probably increase from 16% in 2023 to 18%/20%/22% in 2024/25/26.
- **We maintain 2024-25 ASP assumptions at Rmb106,900/Rmb109,000, and introduce 2026 ASP assumption of Rmb111,200**, implying a 2% p.a. increase, based on the increasing share of EVs in sales mix. We anticipate EVs as a percentage of total sales volume to increase from 29% in 2023 to 43%/50%/55% in 2024/25/26 respectively.
- **We lift gross 2024-25 gross margin assumptions from 12.6%/11.6% to 15.3%/15.3%, and introduce 2026 gross margin assumption of 15.3%**, based on the upbeat gross margin in 2H23, the optimisation of sales mix and the improving economies of scale. Geely has cut prices on old models, but its more lucrative new models (eg Zeekr 007, Zeekr 009, Lynk & Co 08 EM-P) have been growing briskly in sales since recent months. In tandem with sales volume growth, Zeekr's gross margin could improve from 15% in 2023 to 15-20% in 2024, offsetting the margin erosion of the old models.

#### EARNINGS REVISION/RISK

- **We raise our 2024-25 net profit forecasts from Rmb4,006m/Rmb4,358m to Rmb7,373m/Rmb8,187m respectively**, based on higher sales volume and gross margin. Meanwhile we introduce 2026 net profit forecast of Rmb9,483m. Our earnings estimates imply a yoy growth of 39%/11%/16%.

#### VALUATION/RECOMMENDATION

- **Upgrade from SELL to BUY and raise target price from HK\$6.00 to HK\$11.00**, as we roll over the 12x target PE multiple (1SD below historic mean one-year forward PE) from 2024 to 2025 and base our target price on a higher 2025F EPS.

## PROFIT & LOSS

Year to 31 Dec (Rmbm)	2023	2024F	2025F	2026F
Net turnover	179,204	199,640	209,350	234,216
EBITDA	646	1,500	1,500	1,500
Depreciation & amortization	3,754	3,599	3,884	4,135
EBIT	5,300	6,598	6,807	7,775
Total other non-operating income	(1,128)	475	617	802
Associate contributions	234	670	1,310	1,550
Net interest income/(expense)	544	(412)	(595)	(700)
Pre-tax profit	4,950	7,331	8,140	9,428
Tax	(15)	(440)	(488)	(566)
Minorities	(373)	(482)	(536)	(620)
Net profit	5,308	7,373	8,187	9,483
Net profit (recurrent)	5,693	7,373	8,187	9,483

## BALANCE SHEET

Year to 31 Dec (Rmbm)	2023	2024F	2025F	2026F
Fixed assets	27,351	29,751	31,868	33,733
Other LT assets	51,612	60,959	70,553	80,376
Cash/ST investment	36,775	39,487	40,188	40,910
Other current assets	76,860	83,453	86,601	94,663
Total assets	192,598	213,650	229,210	249,682
ST debt	754	-	-	-
Other current liabilities	96,070	105,960	110,692	122,809
LT debt	7,468	7,468	7,468	7,468
Other LT liabilities	3,154	8,855	13,255	14,255
Shareholders' equity	80,509	87,206	94,170	102,145
Minority interest	4,643	4,160	3,625	3,004
Total liabilities & equity	192,598	213,650	229,210	249,682

## CASH FLOW

Year to 31 Dec (Rmbm)	2023	2024F	2025F	2026F
Operating	22,342	16,352	15,619	19,430
Pre-tax profit	4,950	7,331	8,140	9,428
Tax	(2,307)	(3,417)	(3,794)	(4,394)
Depreciation/amortization	3,754	3,599	3,884	4,135
Associates	11,238	3,296	1,584	4,056
Working capital changes	4,708	5,543	5,806	6,206
Non-cash items	(16,145)	(16,000)	(16,000)	(16,000)
Other operating cashflows	(15,151)	(16,000)	(16,000)	(16,000)
Investing	(1,660)	-	-	-
Capex (growth)	102	-	-	-
Investments	564	-	-	-
Proceeds from sale of assets	(2,764)	2,360	1,082	(2,708)
Others	(1,916)	(2,033)	(2,581)	(2,865)
Financing	0	-	-	-
Dividend payments	2,562	7,600	12,000	13,000
Issue of shares	(3,410)	(3,207)	(8,337)	(12,842)
Proceeds from borrowings	3,434	2,711	701	722
Loan repayment	33,341	36,775	39,487	40,188
Others/interest paid	0	-	-	-
Net cash inflow (outflow)	36,775	39,487	40,188	40,910
Beginning cash & cash equivalent	22,342	16,352	15,619	19,430
Ending cash & cash equivalent	4,950	7,331	8,140	9,428

## KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	0.4	0.8	0.7	0.6
Pre-tax margin	2.8	3.7	3.9	4.0
Net margin	3.2	3.7	3.9	4.0
ROA	3.2	3.6	3.7	4.0
ROE	7.3	8.8	9.0	9.7
Growth				
Turnover	21.1	11.4	4.9	11.9
EBITDA	32.1	10.9	9.1	11.9
Pre-tax profit	5.7	48.1	11.0	15.8
Net profit	0.9	38.9	11.0	15.8
Net profit (adj.)	73.6	29.5	11.0	15.8
EPS	73.0	29.5	11.0	15.8
Leverage				
Debt to total capital	4.2	6.1	7.6	7.4
Debt to equity	10.1	15.0	18.5	18.1
Net debt/(cash) to equity	(35.6)	(30.3)	(24.1)	(22.0)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.

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