

# GAC Group (2238 HK/601238 CH)

## Can new management turn around homegrown brands?

**Maintain BUY.** We are of the view that GAC's 4Q24 earnings have become a non-event, while the huge impairment loss in FY24 may provide some earnings upside for FY25E. We believe the reform led by new management team could be more crucial to its future product positioning and share price. We also think that GAC Toyota's earnings could be more resilient than some investors' expectation, given its recent strategic changes in product pricing and technology localization.

■ **4Q24 revenue missed, GPM beat.** GAC's 4Q24 revenue was about 19% lower than our prior forecast, whereas its GPM widened 3.5ppts QoQ to 7.1% in 4Q24 without the warranty provision adjustment, or 1.2ppts higher than our projection. A large impairment loss of RMB2.5bn was offset by the gains from disposal of Guangzhou Juwan Technology's 18.82% stakes. Both equity income from joint ventures (JVs) and associates and government grants were also higher than our prior estimates. GAC's FY24 net profit was close to the lower range of its previously announced profit warning.

■ **Reform led by new management could be a positive catalyst.** It appears to us that GAC's homegrown brands (Trumpchi, Aion and Hypotec) still need some product mix adjustments to be better positioned. We believe that Aion's huge loss in FY24 as a lesson learnt and senior management changes could accelerate the reform. Should there be any positive outcome, it could be a strong catalyst for its share price, in our view. In the past, GAC had early moves in many state-of-the-art technologies but most of them became one-hit wonder. We project homegrown brands' sales volume in FY25E to fall 6% YoY to 0.74mn units. Although it is still too early to draw a conclusion on GAC's partnership with Huawei, it could also be a positive surprise in the future.

■ **Equity income still in the positive territory in FY25-26E.** Although we project GAC Honda to continue making loss in FY25-26E, we are of the view that GAC Toyota's earnings could be more resilient than some investors may expect. We project sales volume at GAC Toyota to be flat YoY in FY25E, after its drastic strategy shift for the bZ3X BEV with more localized parts and technologies. We project GAC's equity income to fall 28%/24% YoY to RMB2.1bn/1.6bn in FY25-26E.

### Earnings Summary - 2238 HK

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	110,272	129,706	107,784	108,125	109,561
YoY growth (%)	45.7	17.6	(16.9)	0.3	1.3
Net profit (RMB mn)	8,063.7	4,428.9	823.6	677.2	480.6
YoY growth (%)	9.9	(45.1)	(81.4)	(17.8)	(29.0)
EPS (Reported) (RMB)	0.78	0.42	0.08	0.07	0.05
P/E (x)	3.7	6.8	36.6	43.7	61.6
P/B (x)	0.3	0.3	0.3	0.3	0.3
Yield (%)	8.4	5.2	1.0	0.8	0.6
ROE (%)	7.9	3.9	0.7	0.6	0.4
Net gearing (%)	(25.0)	(24.5)	(21.6)	(16.1)	(13.8)

Source: Company data, Bloomberg, CMBIGM estimates

	2238 HK	601238 CH
TP	BUY	BUY
	Maintain	Maintain

TP	HK\$3.60	RMB10.00
Prior TP	HK\$3.30	RMB 10.00
Up/Downside	15.8%	17.8%
Current Price	HK\$3.1	RMB8.5

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#### 12-mth Price Performance



Source: FactSet

#### Stock Performance

	2238 HK		601238 CH	
	Abs.	Rel.	Abs.	Rel.
1-mth	2.0%	-0.1%	-2.9%	1.3%
3-mth	-10.1%	-22.9%	-10.1%	-8.6%
6-mth	8.7%	-4.2%	2.7%	2.9%

Source: FactSet

#### Stock Data

(LC)	2238 HK	601238 CH
Mkt Cap (mn)	31712.87	86573.09
Avg 3 mths t/o (mn)	78.39	270.78
52w High	3.81	10.69
52w Low	2.21	7.13
Issued Shares (mn)	10197.07	10197.07

Source: FactSet

- **Valuation/Key risks.** We maintain our BUY rating and raise our H-share target price from HK\$3.30 to HK\$3.60, based on the sum-of-the-part valuation. We value all GAC's consolidated businesses at HK\$2.95 per share, based on 0.3x our FY25E P/S (previously 0.7x on Aion's FY25E P/S). We value its JVs and associates at HK\$0.65 per share based on 3x (prior 4x) our FY25E P/E. We have changed from Aion's valuation to all the consolidated businesses' valuation, as homegrown brands are more integrated now. GAC's net cash of RMB23.5bn as of end-FY24 is equivalent to 80% of its H-share market cap now. Our A-share target price of RMB10.00 is based on GAC's current A/H premium of about 200% (vs. the average A/H premium of 200% in the past 12 months). Key risks to our rating and target prices include lower sales volume and margins than we expect, as well as a sector de-rating.

Figure 1: Quarterly results

RMB mn	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24	YoY	QoQ
Sales volume (units)	539,875	623,029	629,559	710,711	409,698	453,340	472,012	668,008	-6.0%	41.5%
Revenue	26,557	35,354	36,271	31,524	21,566	24,689	28,486	33,043	4.8%	16.0%
Gross profit	610	1,458	2,963	1,783	1,131	1,050	1,034	937	-47.5%	-9.4%
R&D expenses	(397)	(464)	(450)	(423)	(375)	(305)	(353)	(778)	84.2%	120.5%
SG&A expenses	(1,883)	(2,528)	(2,809)	(3,276)	(2,301)	(2,590)	(2,787)	(2,135)	-34.8%	-23.4%
Investment Income	2,955	2,494	1,833	1,379	1,844	1,414	385	3,675	166.5%	854.0%
Operating profit	1,145	1,241	1,480	(583)	961	179	(2,134)	175	N/A	N/A
Net profit	1,538	1,428	1,545	(82)	1,216	300	(1,396)	704	N/A	N/A
Gross margin	2.3%	4.1%	8.2%	5.7%	5.2%	4.3%	3.6%	2.8%	-2.8 ppts	-0.8 ppts
Operating margin	4.3%	3.5%	4.1%	-1.8%	4.5%	0.7%	-7.5%	0.5%	2.4 ppts	8.0 ppts
Net margin	5.8%	4.0%	4.3%	-0.3%	5.6%	1.2%	-4.9%	2.1%	2.4 ppts	7.0 ppts

Source: Company data, CMBIGM

Figure 2: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY24A	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	107,784	108,125	109,561	115,536	111,782	117,538	-6.7%	-3.3%	-6.8%
Gross profit	4,152	5,453	6,587	4,494	5,996	7,931	-7.6%	-9.1%	-16.9%
Operating profit	(820)	(487)	(283)	(2,726)	(2,644)	(788)	N/A	N/A	N/A
Net profit	824	677	481	1,027	384	1,390	-19.8%	76.4%	-65.4%
Gross margin	3.9%	5.0%	6.0%	3.9%	5.4%	6.7%	0.0 ppts	-0.3 ppts	-0.7 ppts
Operating margin	-0.8%	-0.4%	-0.3%	-2.4%	-2.4%	-0.7%	1.6 ppts	1.9 ppts	0.4 ppts
Net margin	0.8%	0.6%	0.4%	0.9%	0.3%	1.2%	-0.1 ppts	0.3 ppts	-0.7 ppts

Source: CMBIGM estimates

Figure 3: CMBI estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY24A	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	107,784	108,125	109,561	116,659	126,649	136,734	-7.6%	-14.6%	-19.9%
Gross profit	4,152	5,453	6,587	6,483	8,021	9,761	-36.0%	-32.0%	-32.5%
Operating profit	(820)	(487)	(283)	(3,995)	(3,472)	(2,819)	N/A	N/A	N/A
Net profit	824	677	481	1,930	2,187	2,407	-57.3%	-69.0%	-80.0%
Gross margin	3.9%	5.0%	6.0%	5.6%	6.3%	7.1%	-1.7 ppts	-1.3 ppts	-1.1 ppts
Operating margin	-0.8%	-0.4%	-0.3%	-3.4%	-2.7%	-2.1%	2.7 ppts	2.3 ppts	1.8 ppts
Net margin	0.8%	0.6%	0.4%	1.7%	1.7%	1.8%	-0.9 ppts	-1.1 ppts	-1.3 ppts

Source: CMBIGM estimates

Figure 4: SOTP valuation

GAC (2238 HK)	FY25E (RMB bn)	Target P/E Multiple	Target P/S Multiple	Target Market Cap (HK\$ bn)	Target Price (HK\$)
Consolidated revenue estimates	108		0.3x	30	2.95
Estimated share of profits of joint ventures & associates	2	3x		7	0.65
<b>SOTP</b>				<b>37</b>	<b>3.60</b>

Source: CMBIGM estimates

## Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024A	2025E	2026E
<b>YE 31 Dec (RMB mn)</b>						
<b>Revenue</b>	<b>75,676</b>	<b>110,272</b>	<b>129,706</b>	<b>107,784</b>	<b>108,125</b>	<b>109,561</b>
Cost of goods sold	(69,264)	(102,755)	(121,097)	(100,742)	(99,969)	(100,235)
Others	(1,824)	(2,235)	(2,942)	(2,890)	(2,703)	(2,739)
<b>Gross profit</b>	<b>4,588</b>	<b>5,282</b>	<b>5,667</b>	<b>4,152</b>	<b>5,453</b>	<b>6,587</b>
<b>Operating expenses</b>	<b>(8,261)</b>	<b>(8,367)</b>	<b>(9,547)</b>	<b>(8,899)</b>	<b>(8,308)</b>	<b>(8,413)</b>
Selling expense	(4,340)	(3,923)	(5,048)	(5,417)	(4,420)	(4,630)
Admin expense	(3,934)	(3,796)	(4,301)	(4,397)	(4,005)	(4,036)
R&D expense	(989)	(1,707)	(1,734)	(1,812)	(1,765)	(1,811)
Others	1,001	1,058	1,535	2,726	1,882	2,064
<b>Operating profit</b>	<b>(3,673)</b>	<b>(3,085)</b>	<b>(3,881)</b>	<b>(4,747)</b>	<b>(2,854)</b>	<b>(1,826)</b>
Gain/loss on financial assets at FVTPL	(22)	(319)	(41)	(405)	87	87
Investment gain/loss	11,814	14,317	8,660	7,319	2,591	2,124
Other gains/(losses)	(433)	(3,131)	(772)	(2,370)	140	(180)
<b>EBITDA</b>	<b>13,505</b>	<b>14,542</b>	<b>10,764</b>	<b>8,415</b>	<b>9,453</b>	<b>10,464</b>
Depreciation	2,389	2,553	2,660	3,072	3,260	3,586
Depreciation of ROU assets	269	325	521	598	724	850
Goodwill amortisation	2,966	3,719	3,269	4,587	5,099	5,380
Other amortisation	195	163	349	361	406	442
<b>EBIT</b>	<b>7,686</b>	<b>7,782</b>	<b>3,966</b>	<b>(204)</b>	<b>(37)</b>	<b>206</b>
Interest income	287	481	773	569	373	348
Interest expense	(449)	(328)	(441)	(523)	(229)	(269)
<b>Pre-tax profit</b>	<b>7,237</b>	<b>7,454</b>	<b>3,525</b>	<b>(727)</b>	<b>(267)</b>	<b>(63)</b>
Income tax	154	536	215	233	145	102
<b>After tax profit</b>	<b>7,391</b>	<b>7,990</b>	<b>3,740</b>	<b>(494)</b>	<b>(122)</b>	<b>38</b>
Minority interest	(56)	74	689	1,318	799	442
<b>Net profit</b>	<b>7,335</b>	<b>8,064</b>	<b>4,429</b>	<b>824</b>	<b>677</b>	<b>481</b>
Gross dividends	2,297	2,516	1,573	288	237	168

BALANCE SHEET	2021A	2022A	2023A	2024A	2025E	2026E
<b>YE 31 Dec (RMB mn)</b>						
<b>Current assets</b>	<b>61,192</b>	<b>91,603</b>	<b>101,111</b>	<b>78,154</b>	<b>72,673</b>	<b>73,236</b>
Cash & equivalents	24,036	39,524	48,895	33,303	28,915	29,071
Account receivables	8,994	8,192	5,756	4,725	5,628	6,304
Inventories	8,111	12,362	16,720	14,352	13,147	12,358
Prepayment	760	1,239	2,108	1,656	1,643	1,648
Financial assets at FVTPL	3,226	4,220	2,791	2,748	2,385	2,398
Other current assets	16,065	26,066	24,841	21,371	20,954	21,457
<b>Non-current assets</b>	<b>93,005</b>	<b>98,229</b>	<b>117,284</b>	<b>110,531</b>	<b>117,022</b>	<b>118,932</b>
PP&E	17,507	19,284	21,927	25,091	26,742	27,566
Right-of-use assets	1,393	1,480	1,896	1,997	1,973	1,823
Deferred income tax	2,834	3,715	4,366	4,366	4,366	4,366
Investment in JVs & assos	36,905	37,788	37,137	29,819	30,117	30,253
Intangibles	15,383	16,122	19,873	19,539	19,954	19,536
Goodwill	105	103	57	57	57	57
Financial assets at FVTPL	1,946	2,169	2,364	2,248	1,952	1,962
Other non-current assets	16,933	17,567	29,665	27,413	31,861	33,369
<b>Total assets</b>	<b>154,197</b>	<b>189,832</b>	<b>218,395</b>	<b>188,685</b>	<b>189,695</b>	<b>192,168</b>
<b>Current liabilities</b>	<b>48,806</b>	<b>56,606</b>	<b>77,127</b>	<b>51,805</b>	<b>53,281</b>	<b>55,833</b>
Short-term borrowings	2,296	6,309	11,674	0	1,789	4,602
Account payables	15,946	17,746	27,584	22,080	21,911	21,969
Tax payable	918	763	947	754	757	767
Other current liabilities	29,646	31,788	36,922	28,970	28,824	28,494
<b>Non-current liabilities</b>	<b>12,796</b>	<b>10,948</b>	<b>16,868</b>	<b>15,749</b>	<b>15,675</b>	<b>15,647</b>
Long-term borrowings	2,702	4,854	8,903	8,787	8,711	8,662
Bond payables	2,995	0	0	0	0	0
Deferred income	2,522	2,295	2,178	2,045	1,946	1,873
Other non-current liabilities	4,576	3,799	5,787	4,918	5,018	5,112
<b>Total liabilities</b>	<b>61,602</b>	<b>67,554</b>	<b>93,995</b>	<b>67,554</b>	<b>68,956</b>	<b>71,480</b>
Share capital	10,371	10,487	10,490	10,197	10,197	10,197
Other reserves	79,889	102,763	105,230	103,552	103,939	104,310
<b>Total shareholders equity</b>	<b>90,259</b>	<b>113,250</b>	<b>115,720</b>	<b>113,749</b>	<b>114,136</b>	<b>114,506</b>
Minority interest	2,335	9,027	8,680	7,382	6,603	6,181

Total equity and liabilities	154,197	189,832	218,395	188,685	189,695	192,168
<b>CASH FLOW</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024A</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec (RMB mn)</b>						
<b>Operating</b>						
Profit before taxation	7,237	7,454	3,525	(727)	(267)	(63)
Depreciation & amortization	5,818	6,760	6,798	8,619	9,490	10,258
Change in working capital	(8,254)	(10,074)	2,601	(8,756)	(2,075)	(1,327)
Others	(10,391)	(9,489)	(6,196)	(3,330)	(1,880)	(1,102)
<b>Net cash from operations</b>	<b>(5,589)</b>	<b>(5,349)</b>	<b>6,728</b>	<b>(4,195)</b>	<b>5,269</b>	<b>7,765</b>
<b>Investing</b>						
Capital expenditure	(6,243)	(8,014)	(11,577)	(14,208)	(12,404)	(12,059)
Acquisition of subsidiaries/ investments	(9,062)	(9,644)	(23,309)	(1,614)	(1,600)	(723)
Net proceeds from disposal of short-term investments	5,206	4,256	18,394	330	658	500
Others	11,747	9,568	14,021	23,630	3,587	3,333
<b>Net cash from investing</b>	<b>1,649</b>	<b>(3,834)</b>	<b>(2,471)</b>	<b>8,138</b>	<b>(9,759)</b>	<b>(8,949)</b>
<b>Financing</b>						
Dividend paid	(2,839)	(3,388)	(3,558)	(1,723)	(586)	(569)
Net borrowings	(657)	3,539	6,688	(13,245)	1,673	2,738
Proceeds from share issues	114	22,324	489	(1,750)	100	100
Others	3,455	1,803	455	(2,817)	(1,085)	(929)
<b>Net cash from financing</b>	<b>73</b>	<b>24,277</b>	<b>4,074</b>	<b>(19,535)</b>	<b>102</b>	<b>1,341</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	26,291	22,340	37,479	45,865	30,273	25,885
Exchange difference	(84)	44	56	0	0	0
<b>Cash at the end of the year</b>	<b>22,340</b>	<b>37,479</b>	<b>45,865</b>	<b>30,273</b>	<b>25,885</b>	<b>26,041</b>
<b>GROWTH</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024A</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
Revenue	19.8%	45.7%	17.6%	(16.9%)	0.3%	1.3%
Gross profit	52.4%	15.1%	7.3%	(26.7%)	31.3%	20.8%
EBITDA	19.0%	7.7%	(26.0%)	(21.8%)	12.3%	10.7%
EBIT	25.6%	1.2%	(49.0%)	na	na	na
Net profit	22.9%	9.9%	(45.1%)	(81.4%)	(17.8%)	(29.0%)
<b>PROFITABILITY</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024A</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
Gross profit margin	6.1%	4.8%	4.4%	3.9%	5.0%	6.0%
Operating margin	(4.9%)	(2.8%)	(3.0%)	(4.4%)	(2.6%)	(1.7%)
EBITDA margin	17.8%	13.2%	8.3%	7.8%	8.7%	9.6%
Return on equity (ROE)	8.4%	7.9%	3.9%	0.7%	0.6%	0.4%
<b>GEARING/LIQUIDITY/ACTIVITIES</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024A</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
Net debt to equity (x)	(0.2)	(0.3)	(0.2)	(0.2)	(0.2)	(0.1)
Current ratio (x)	1.3	1.6	1.3	1.5	1.4	1.3
Receivable turnover days	34.8	26.8	14.9	15.0	18.0	20.0
Inventory turnover days	42.7	43.9	50.4	52.0	48.0	45.0
Payable turnover days	84.0	63.0	83.1	80.0	80.0	80.0
<b>VALUATION</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024A</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
P/E	4.1	3.7	6.8	36.6	43.7	61.6
P/E (diluted)	4.1	3.8	6.9	36.6	43.7	61.7
P/B	0.3	0.3	0.3	0.3	0.3	0.3
P/CFPS	ns	ns	4.5	ns	5.6	3.8
Div yield (%)	7.7	8.4	5.2	1.0	0.8	0.6

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

# Disclosures & Disclaimers

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## CMBIGM Ratings

**BUY** : Stock with potential return of over 15% over next 12 months  
**HOLD** : Stock with potential return of +15% to -10% over next 12 months  
**SELL** : Stock with potential loss of over 10% over next 12 months  
**NOT RATED** : Stock is not rated by CMBIGM

**OUTPERFORM** : Industry expected to outperform the relevant broad market benchmark over next 12 months  
**MARKET-PERFORM** : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months  
**UNDERPERFORM** : Industry expected to underperform the relevant broad market benchmark over next 12 months

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