

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 Hiptec) 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
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

China Auto

Ji SHI, CFA

(852) 3761 8728

shiji@cmbi.com.hk

Wenjing DOU, CFA

(852) 6939 4751

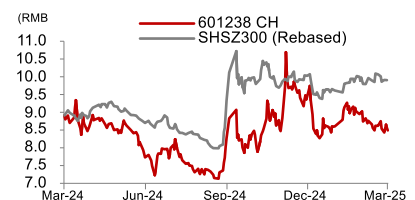
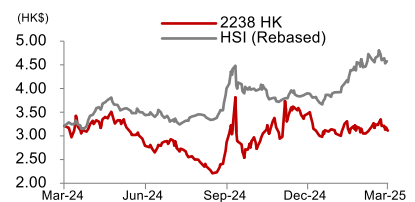
douwenjing@cmbi.com.hk

Austin Liang

(852) 3900 0856

austinliang@cmbi.com.hk

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 pts	-0.8 pts
Operating margin	4.3%	3.5%	4.1%	-1.8%	4.5%	0.7%	-7.5%	0.5%	2.4 pts	8.0 pts
Net margin	5.8%	4.0%	4.3%	-0.3%	5.6%	1.2%	-4.9%	2.1%	2.4 pts	7.0 pts

Source: Company data, CMBIGM

Figure 2: Earnings revision

RMB mn	FY24A	New FY25E	FY26E	FY24E	Old FY25E	FY26E	FY24E	Diff (%)	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
SOTP				37	3.60

Source: CMBIGM estimates

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024A	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	75,676	110,272	129,706	107,784	108,125	109,561
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)
Gross profit	4,588	5,282	5,667	4,152	5,453	6,587
Operating expenses	(8,261)	(8,367)	(9,547)	(8,899)	(8,308)	(8,413)
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
Operating profit	(3,673)	(3,085)	(3,881)	(4,747)	(2,854)	(1,826)
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)
EBITDA	13,505	14,542	10,764	8,415	9,453	10,464
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
EBIT	7,686	7,782	3,966	(204)	(37)	206
Interest income	287	481	773	569	373	348
Interest expense	(449)	(328)	(441)	(523)	(229)	(269)
Pre-tax profit	7,237	7,454	3,525	(727)	(267)	(63)
Income tax	154	536	215	233	145	102
After tax profit	7,391	7,990	3,740	(494)	(122)	38
Minority interest	(56)	74	689	1,318	799	442
Net profit	7,335	8,064	4,429	824	677	481
Gross dividends	2,297	2,516	1,573	288	237	168

BALANCE SHEET	2021A	2022A	2023A	2024A	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	61,192	91,603	101,111	78,154	72,673	73,236
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
Non-current assets	93,005	98,229	117,284	110,531	117,022	118,932
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
Total assets	154,197	189,832	218,395	188,685	189,695	192,168
Current liabilities	48,806	56,606	77,127	51,805	53,281	55,833
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
Non-current liabilities	12,796	10,948	16,868	15,749	15,675	15,647
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
Total liabilities	61,602	67,554	93,995	67,554	68,956	71,480
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
Total shareholders equity	90,259	113,250	115,720	113,749	114,136	114,506
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
CASH FLOW	2021A	2022A	2023A	2024A	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
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)
Net cash from operations	(5,589)	(5,349)	6,728	(4,195)	5,269	7,765
Investing						
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
Net cash from investing	1,649	(3,834)	(2,471)	8,138	(9,759)	(8,949)
Financing						
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)
Net cash from financing	73	24,277	4,074	(19,535)	102	1,341
Net change in cash						
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
Cash at the end of the year	22,340	37,479	45,865	30,273	25,885	26,041
GROWTH	2021A	2022A	2023A	2024A	2025E	2026E
YE 31 Dec						
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%)
PROFITABILITY	2021A	2022A	2023A	2024A	2025E	2026E
YE 31 Dec						
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%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024A	2025E	2026E
YE 31 Dec						
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
VALUATION	2021A	2022A	2023A	2024A	2025E	2026E
YE 31 Dec						
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

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report. Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

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

CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

CMB International Global Markets Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIGM will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM. Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.