

19 March 2015

Hold
Downgrade

Market Data: Mar, 18

| | |
|--------------------------|-----------|
| Closing Price (HK\$) | 3.60 |
| Price Target (HK\$) | 3.75 |
| HSCEI | 11,982 |
| HSCCI | 4,463 |
| 52-week High/Low (HK\$) | 3.68/2.40 |
| Market Cap (US\$m) | 4,088 |
| Market Cap (HK\$m) | 31,684 |
| Shares Outstanding (m) | 8,801 |
| Exchange Rate (Rmb-HK\$) | 1.27 |

Price Performance Chart:



Source: Bloomberg

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Related Reports

"GEELY AUTOMOBILE HOLDINGS (175:HK) - Sales heat up" Feb 26, 2015

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业绩如期，2015 年车型升级

吉利汽车 (175:HK)

Financial summary and valuation

| | 2013 | 2014 | 2015E | 2016E | 2017E |
|--------------------|--------|---------|--------|--------|--------|
| Revenue (Rmbm) | 28,708 | 21,738 | 25,174 | 29,829 | 35,880 |
| YoY (%) | 16.57 | (24.28) | 15.80 | 18.49 | 20.28 |
| Net income (Rmbm) | 2,680 | 1,449 | 2,776 | 3,483 | 4,237 |
| YoY (%) | 30.76 | (45.93) | 91.58 | 25.47 | 21.64 |
| EPS (Rmb) | 0.32 | 0.16 | 0.31 | 0.39 | 0.47 |
| Diluted EPS (Rmb) | 0.30 | 0.16 | 0.31 | 0.39 | 0.47 |
| ROE (%) | 16.41 | 8.19 | 13.77 | 14.98 | 15.68 |
| Debt/asset (%) | 51.70 | 53.15 | 47.63 | 46.91 | 46.85 |
| Dividend Yield (%) | 1.33 | 0.88 | 1.30 | 1.62 | 1.97 |
| PE (x) | 9.00 | 17.58 | 9.22 | 7.39 | 6.10 |
| PB (x) | 1.48 | 1.44 | 1.27 | 1.11 | 0.96 |
| EV/Ebitda (x) | 4.19 | 6.62 | 3.91 | 3.24 | 2.71 |

Note: Diluted EPS is calculated as if all outstanding convertible securities, such as convertible preferred shares, convertible debentures, stock options and warrants, were exercised.

业绩符合预期。吉利汽车公布 2014 财年数据。全年收入约人民币 217 亿元，同比下降 24%；全年净利润约人民币 14 亿元，同比下降 46%。2014 年每股净利润为人民币 0.16 元，符合我们的预期。毛利率从 2013 年的 20.1% 下滑至 2014 年的 18.2%；净利率与去年相比，收窄 2.6%，下滑至 6.7%。我们认为 2014 年业绩不佳，主要是由于公司汽车销量疲软（全年总销量下滑 24%）以及大量在俄未实现的外汇汇兑损失（同比增长 590%，约人民币 6.54 亿元）所致。在不考虑未实现的外汇汇兑损失的情况下，受收入同比下滑 24% 的影响，全年净利润同比下滑约 27%。

对俄罗斯业务的担忧逐步缓解。俄罗斯是吉利的第三大出口国，2014 年公司对俄销量约占了出口总量的 16%，以及总销量的 2%。由于市场出于对俄罗斯经济下滑的担忧，公司股价在 2014 年 12 月大幅下挫，下跌幅度达约 27%。然而，我们认为：一方面，随着出口占比从 2014 年的 14% 下滑至 2015 年 1-2 月的 7%，吉利汽车已逐步把业务重心转移至国内市场；另一方面，卢布贬值的幅度也从 2014 年的约 45% 显著收窄至年初至今的约 1%。受此两方面因素的叠加影响，我们认为，吉利汽车在俄业务的风险将逐步变小。

车型升级，2015 年初战告捷。吉利汽车于 2014 年 7 月底，成功推出 EC7 的升级版新帝豪。EC7 和新帝豪在 1-2 月的销量约 3.94 万辆，同比增长 105%。同时，为进一步抓住中国 A 级轿车市场的发展机遇，吉利汽车又于 2014 年 11 月成功推出新远景。在新远景销量的拉动下，吉利汽车远景系列的销量在 1-2 月约 1.88 万辆，同比增长近 7 倍。新车型的销量表现强劲。受此影响，公司的汽车总销量从 2014 年同比下滑 24% 跳升至 2015 年 1-2 月的同比增长 67%。1-2 月总销量约 9.2 万辆；出口基本持平约 6.8 千辆；国内销量同比增长 77%，约 8.52 万辆。

强劲的增长势头预计会持续。新帝豪和新远景分别约占了 1-2 月公司汽车总销量的 40% 和 20%。我们认为，新帝豪和新远景将是未来拉动吉利汽车销量增长的主要驱动点。我们看好这两个车型升级版的未来销售前景。同时，通过配置沃尔沃先进的车辆安全调控系统，以及采用时尚前卫的设计，吉利汽车的新型 B 级轿车博瑞已于今年 3 月面世，我们预计博瑞将于今年下半年起全面正式起售。我们认为，越来越多新车型的推出将使吉利汽车的车型更加完整，增加公司的市场竞争力，确保未来销量的稳定增长。

下调评级至持有。我们已把公司车型升级的正面影响反应在我们的财务模型中。因此，我们维持 2015 年的销量预测 49.5 万辆（同比增长 18%），2016 年的销量预测 59.5 万辆（同比增长 20%），并得出 2017 年的销量预测 72.6 万辆（同比增长 22%）。我们维持 2015 年的每股盈利预测人民币 0.31 元（同比增长 94%），2016 年的每股盈利预测人民币 0.39 元（同比增长 25%），并得出 2017 年的每股盈利预测 0.47 元（同比增长 21%）。吉利汽车的目前股价对应 2015/16/17 年的市盈率分别为 9.2/7.4/6.1 倍。我们维持目标价港币 3.75 元。从今年年初至今，公司股价已大幅上涨 46%；基于 4% 的上升空间，我们把评级从增持下调至持有。

Investment Highlights

Results in line. Geely reported total revenue of Rmb21.7bn (-24% YoY) and net profit of Rmb1.4bn (-46% YoY), bringing EPS to Rmb0.16, in line with our expectation. Gross margin fell from 20.1% in 2013 to 18.2% in 2014, and net margin narrowed 2.6ppts to 6.7% in 2014. We believe the weak result is primarily attributable to a decline in the company's total auto sales volume (-24% YoY) while an unrealized foreign exchange loss of Rmb654m (+590% YoY) following a precipitous depreciation of the Russian rouble hammered the company's bottom line. Excluding the impact from forex, net profit declined 27% YoY, approximately in line with the contraction in revenue during the period.

Concerns over losses in Russia are overdone. Russia is Geely's third-largest export destination (accounting for c.16% of total exports by volume, c.2% of total unit sales in 2014). As concerns over Russia's economic outlook rise, the company's share price has corrected (c.-27% since December 2014). However, we believe that Geely's Russian woes have eased, given the company's strategy of focusing on the domestic market (total export exposure fell from 14% in 2014 to 7% in January-February 2015) and moderating depreciation of the ruble (c.-1% against the US dollar in the year-to-date, c.-45% against the dollar in 2014).

A good start in 2015 driven by an upgraded model cycle. In late July-2014, Geely launched its upgraded EC7 sedan model, *Xindihao*. The combined sales volume of EC7 and *Xindihao* grew substantially to c.39.4k units (+105% YoY) in January-February. In addition, Geely launched new *Vision* (an updated version of *Vision* sedan, targeting China's A-class sedan market) in November 2014, driving total *Vision* sales up by more than sevenfold YoY to c.18.8k units in the first two months of 2015. Propelled by the strong sales of its newly-released sedan models, Geely's total sales volume reached c.92.0k units in January-February, with growth jumping back into positive territory at +67% YoY (vs -24% YoY in 2014). Total exports came to c.6.8k units (flat YoY) in January-February, while domestic sales rose +77% YoY to c.85.2k units during the same period.

Strong growth momentum likely to continue. We see *Xindihao* (c.40% volume contribution) and new *Vision* (c.20% volume contribution) as the company's new sales growth drivers and expect them to maintain robust growth in 2015-17E. Furthermore, by leveraging Volvo's (VOLVF:US) advanced safety control technology and design, Geely's new B-class sedan model, GC9, debuted on 16 March and may contribute monthly sales of c.2-3k in 2H15E under our forecasts. We believe the enriched product portfolio increases Geely's competitive edge and secures steady sales growth in future.

Downgrade to Hold. We have factored in our positive outlook on Geely's improving product mix in our financial model; and thus maintain our sales forecast of 495k units (+18% YoY) in 15E, 595k units (+20% YoY) in 16E. We forecast sales of 726k units (+22% YoY) in 17E. We maintain our EPS forecasts of Rmb0.31 (+94% YoY) in 15E, Rmb0.39 (+25% YoY) in 16E, and forecast EPS of Rmb0.47 in 17E. Geely is trading at 9.2x 15E PE, 7.4x 16E PE and 6.1x 17E PE. We maintain our target price at HK\$3.75. The company's share price has rallied by 46% YTD, resulting in just 4% upside. We downgrade our rating from Outperform to Hold.

APPENDIX

Consolidated Income Statement

| Rmbm | 2013 | 2014 | 2015E | 2016E | 2017E |
|--------------------------------|----------|----------|----------|----------|----------|
| Revenue | 28,708 | 21,738 | 25,174 | 29,829 | 35,880 |
| Cost of Sales | (22,942) | (17,776) | (19,761) | (23,223) | (27,877) |
| Gross Profit | 5,766 | 3,963 | 5,413 | 6,606 | 8,003 |
| Other Income | 1,062 | 1,055 | 1,234 | 1,462 | 1,758 |
| Distribution expenses | (1,705) | (1,250) | (1,385) | (1,641) | (1,973) |
| Administrative expenses | (1,682) | (1,772) | (1,510) | (1,730) | (2,081) |
| Ebitda | 4,432 | 2,808 | 4,756 | 5,733 | 6,855 |
| Ebit | 3,354 | 1,935 | 3,688 | 4,631 | 5,637 |
| Share of results of associates | (10) | 32 | 34 | 36 | 38 |
| Finance Costs | (40) | (24) | (21) | (23) | (25) |
| Profit before tax | 3,304 | 1,943 | 3,702 | 4,644 | 5,649 |
| Income tax expense | (624) | (494) | (925) | (1,161) | (1,412) |
| Profit for the year | 2,680 | 1,449 | 2,776 | 3,483 | 4,237 |
| Minority interests | 17 | 19 | 36 | 45 | 55 |
| Equity holders of the parent | 2,663 | 1,431 | 2,740 | 3,438 | 4,182 |

Source: SWS Research

Consolidated Cash Flow Statement

| Rmbm | 2013 | 2014 | 2015E | 2016E | 2017E |
|-------------------------------------|---------|---------|-------|---------|---------|
| Profit before taxation | 3,304 | 1,943 | 3,702 | 4,644 | 5,649 |
| Plus : Depr. and amortisation | 1,078 | 874 | 1,068 | 1,101 | 1,218 |
| Finance cost | 99 | 81 | 21 | 23 | 25 |
| Change in working capital | (449) | (960) | (745) | (669) | (558) |
| Others | (610) | (497) | (925) | (1,161) | (1,412) |
| CF from operating activities | 3,562 | 2,033 | 3,042 | 3,842 | 4,799 |
| Capex | (930) | (841) | (881) | (1,044) | (1,256) |
| Other CF from investing activities | 65 | (627) | - | - | - |
| CF from investing activities | (865) | (1,468) | (881) | (1,044) | (1,256) |
| Net change in liabilities | (930) | (274) | 69 | 76 | 84 |
| Dividend and interest paid | (348) | (368) | (350) | (435) | (527) |
| Other CF from financing activities | (87) | 1,814 | - | - | - |
| CF from financing activities | (1,366) | 1,172 | (280) | (359) | (443) |
| Net change of cash flow | 1,330 | 1,737 | 1,881 | 2,438 | 3,100 |

Source : SWS Research

Consolidated Balance Sheet

| Rmbm | 2013 | 2014 | 2015E | 2016E | 2017E |
|-------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Current Assets | 22,251 | 25,303 | 25,927 | 31,214 | 38,120 |
| Bank balances and cash | 5,478 | 7,203 | 9,084 | 11,523 | 14,622 |
| Trade and other receivables | 14,785 | 16,385 | 15,247 | 17,876 | 21,355 |
| Inventories | 1,784 | 1,620 | 1,501 | 1,719 | 2,044 |
| Other current assets | 204 | 95 | 95 | 96 | 98 |
| Long-term investments | 688 | 719 | 726 | 733 | 741 |
| PP&E | 6,209 | 5,861 | 6,312 | 6,263 | 6,313 |
| Intangible and other assets | 4,452 | 5,397 | 5,027 | 5,023 | 5,001 |
| Total Assets | 33,599 | 37,280 | 37,992 | 43,234 | 50,174 |
| Current Liabilities | 17,237 | 17,845 | 15,940 | 18,227 | 21,597 |
| Borrowings | 966 | 692 | 761 | 837 | 921 |
| Trade and other payables | 16,075 | 17,017 | 15,015 | 17,194 | 20,440 |
| Other current liabilities | 197 | 137 | 164 | 197 | 236 |
| Long-term liabilities | 133 | 1,969 | 2,156 | 2,054 | 1,909 |
| Total Liabilities | 17,370 | 19,814 | 18,095 | 20,282 | 23,505 |
| Share Capital | 161 | 161 | 161 | 161 | 161 |
| Reserves | 15,907 | 17,127 | 19,538 | 22,563 | 26,243 |
| Minority interests | 162 | 178 | 197 | 227 | 264 |
| Total Liabilities and equity | 33,599 | 37,280 | 37,992 | 43,234 | 50,174 |

Source: SWS Research

Key Financial Ratios

| | 2013 | 2014 | 2015E | 2016E | 2017E |
|---------------------------------|-------|---------|-------|-------|-------|
| Ratios per share (Rmb) | | | | | |
| Earnings per share | 0.32 | 0.16 | 0.31 | 0.39 | 0.47 |
| Operating CF per share | 0.50 | 0.29 | 0.45 | 0.56 | 0.70 |
| Dividend per share | 0.04 | 0.03 | 0.04 | 0.05 | 0.06 |
| Net assets per share | 1.93 | 1.98 | 2.25 | 2.58 | 2.99 |
| Key Operating Ratios (%) | | | | | |
| ROE | 16.41 | 8.19 | 13.77 | 14.98 | 15.68 |
| Gross profit margin | 20.08 | 18.23 | 21.50 | 22.15 | 22.30 |
| Ebitda Margin | 15.44 | 12.92 | 18.89 | 19.22 | 19.10 |
| Ebit Margin | 11.68 | 8.90 | 14.65 | 15.53 | 15.71 |
| Growth rate of Revenue (YoY) | 16.57 | (24.28) | 15.80 | 18.49 | 20.28 |
| Growth rate of Profit (YoY) | 30.76 | (45.93) | 91.58 | 25.47 | 21.64 |
| Debt-to-asset ratio | 51.70 | 53.15 | 47.63 | 46.91 | 46.85 |
| Turnover rate of net assets | 1.77 | 1.24 | 1.27 | 1.30 | 1.35 |
| Turnover rate of total assets | 0.85 | 0.58 | 0.66 | 0.69 | 0.72 |
| Effective tax rate (%) | 18.88 | 25.43 | 25.00 | 25.00 | 25.00 |
| Dividend yield (%) | 1.33 | 0.88 | 1.30 | 1.62 | 1.97 |

Source: SWS Research

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