



Rating
Hold

Asia
China

Automobiles &
Components

Company
Geely Auto Alert

| | | | |
|---------------------|----------------------|-----------------|----------------|
| Reuters 0175.HK | Bloomberg 175 HK | Exchange HKG | Ticker 0175 |
| ADR Ticker GELYY | ISIN US36847Q1031 | | |

Date
23 March 2015

Company Update

| | |
|----------------------------|-------------|
| Price at 23 Mar 2015 (HKD) | 3.87 |
| Price target - 12mth (HKD) | 3.35 |
| 52-week range (HKD) | 3.91 - 2.44 |
| HANG SENG INDEX | 24,375 |

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Hong Kong NDR takeaways

We hosted Geely's NDR lunch in Hong Kong on 23 March. The following are the key topics for discussion:

- Management attributed the 46% YoY FY14 net profit decline to 1) sales network restructuring, which led to slump in domestic sales and 2) depreciation of Russia rubles and subsequent FX loss. Geely is currently mitigating its FX risk by slowing down sales and raising prices in Russia. Moreover, management commented that Russia is the company's only export market that suffered from FX loss and Geely settles sales in USD terms in other overseas markets.
- Despite the weak sales in FY14, with the launch of new models (Xindihao and New Vision) in 4Q14, domestic sales momentum has been improving over the past few months, according to the management. In addition, the company's retail sales reached record level with dealer inventory level at about one month vs. a normal level of about two months.
- Management expects Xindihao sales to remain strong at least until this summer, based on current order backlog. During 2H15E and early FY16E, the company will launch 3 new SUV models, all built on the FE platform, which Xindihao is based on.
- Geely's 1.9ppt YoY FY14 gross profit margin compression was due to the typically lower initial margins of new products such as Xindihao and the New Vision. Management expects Xindihao's margin to improve to a level similar to EC7 in FY15E with lower procurement cost and higher volume.
- The GC9 mid-size sedan, built on Geely's KC platform, will be launched in April. Geely is confident in this model (with positive feedback from pre-sale), which is designed by its Design Chief Peter Horbury (ex-Volvo's design team lead), and believes the local brand mid-size sedan segment will benefit from upgrade demand.
- The compact passenger vehicle product based on CMA platform will be launched in late FY16. The platform is co-developed with Volvo Car and Geely believes it will be able to compete with JV brands considering Volvo's advanced technology.

Deutsche Bank view – FY15E recovery in sight; maintaining Hold

We think that Geely is on track to achieve a better product mix with higher volume contribution from high-margin models, thus driving the earnings growth in FY15E and beyond. In addition, we expect the technology tie-up with Volvo and the consequent new product roll-out will make the company more competitive vs. local peers and JV brands in China. Nevertheless, we think that the aforementioned positives are well reflected in the stock's valuation, and hence we maintain Hold. Key upside risks include a stronger-than-expected reception for its new models. Key downside risks include a weak reception for its new models and export disappointments.

Stock data

| | |
|-------------------------------|---------------------------|
| Market cap (HKDm) | 34,062 |
| Market cap (USDm) | 4,391 |
| Shares outstanding (m) | 8,801.4 |
| Major shareholders | Zhejiang Geely Hldg (45%) |
| Free float (%) | 57 |
| Avg daily value traded (USDm) | 17.8 |

Source: Deutsche Bank

Key data

| FYE 12/31 | 2014A | 2015E | 2016E |
|-------------------|---------|---------|---------|
| Sales (CNYm) | 21,738 | 30,222 | 34,202 |
| Net Profit (CNYm) | 1,430.6 | 2,963.1 | 3,275.9 |
| DB EPS (CNY) | 0.24 | 0.33 | 0.37 |
| PER (x) | 10.2 | 9.2 | 8.4 |
| Yield (net) (%) | 0.8 | 1.3 | 1.5 |

Source: Deutsche Bank

Deutsche Bank AG/Hong Kong

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