

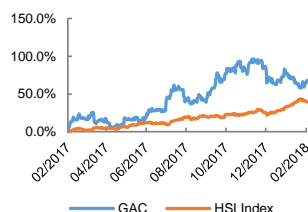
12 February, 2018

**BUY**  
**Unchanged**

**Market Data: February 09, 2018**

Closing Price (HK\$)	16.14
Price Target (HK\$)	24.00
HSCEI	11,946
HSCCI	4,327
52-week High/Low (HK\$)	22.05/10.78
Market Cap (USD Mn)	15,045
Market Cap (HK\$ Mn)	117,540
Shares Outstanding (Mn)	7,283
Exchange Rate (RMB-HK\$)	0.81

**Price Performance Chart:**



Source: Bloomberg

**Analyst**

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**Related Reports**

**"GAC (2238:HK)- Pooling of resources"**  
January 16, 2017

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## Getting a grip

### Guangzhou Automobile Group (2238:HK)

**Financial summary and valuation**

	2015	2016	2017E	2018E	2019E
Revenue (Rmbm)	29,418	49,418	62,011	82,512	88,981
YoY (%)	13.2	68.0	25.5	33.1	7.8
Net income (Rmbm)	4,212	6,288	10,806	14,044	15,064
YoY (%)	43.1	49.3	71.9	30.0	7.3
EPS (Rmb)	0.65	0.98	1.48	1.93	2.07
Diluted EPS (Rmb)	0.65	0.95	1.46	1.90	2.04
ROE (%)	11.1	14.9	19.1	19.1	17.9
Debt/asset (%)	17.7	18.0	13.9	12.6	11.2
Dividend Yield (%)	0.7	0.6	0.9	1.6	2.7
P/E (x)	21.1	14.2	9.3	7.2	6.7
P/B (x)	2.3	2.0	1.5	1.3	1.1
EV/EBITDA (x)	56.0	26.5	14.7	10.8	9.8

Note: Diluted EPS is calculated as if all outstanding convertible securities, such as convertible preferred shares, convertible debentures, stock options and warrants, were exercised. P/E is calculated as closing price divided by each year's EPS.

Guangzhou Automobile Group (GAC) reported auto sales of 210k units in January 2018, up 25.1% YoY and 17.9% MoM. We believe the strong sales growth was mainly because domestic high-end products and Japanese brands are gaining traction. We maintain our diluted EPS forecasts of Rmb1.46 in 17E (+53.7% YoY), Rmb1.90 in 18E (+30.1% YoY), and Rmb2.04 in 19E (+7.4% YoY). We maintain our target price of HK\$24.00 and, with 48.7% upside, maintain our BUY rating.

**Good start.** The company realised auto sales of 210k units in January 2018, up 25.1% YoY and 17.9% MoM. Domestic brands recorded total sales of 61k units in January (+32.3% YoY), mainly due to rising demand for high-end *Trumpchi* products and a healthy days' sales in inventory, at 0.8 months, by end-2017. GAC Honda reported sales of 72k units in January (+38.4% YoY), primarily due to recovering sales of *Accord* models. GAC Toyota's January sales were flat at 46k units, however, with *Camry*'s capacity ramp-up, we expect to see sequential improvement in GAC Toyota's monthly sales. We believe GAC will benefit from both the growing domestic sports-utility vehicle (SUV) market and increasing sales of Japanese vehicles, and expect the company's total auto sales to reach 2.3m units in 18E (+13.0% YoY), vs the company's guidance of 10% YoY growth.

**Trumpchi's improving product mix.** We expect GAC to step up development of advanced technologies and products for its domestic brand. We forecast *Trumpchi* sales of 679k units in 18E (+34.0% YoY) and 725k units in 19E (+6.7% YoY), driven by *Trumpchi GS8*'s ramping up sales, the launch of the *GM8* model, and a mid-life facelift for the *GS4*. We think GAC will continue to shift its product mix towards higher-end products (*GS8*, *GS7*, and *GM8*), with sales contribution from the three models climbing from 21.8% in 17A to 29.5% in 18E, and blended average selling price rising 1.4% YoY to Rmb92k in 18E. As such, we expect *Trumpchi*'s blended gross margin to expand from 17.9% in 16A to 22.3% in 17-18E and 22.4% in 19E.

**Japanese growth driver.** GAC's JV with Toyota Motor (7203:JP) suffered from tight capacity in 2017, and we expect the capacity issue to be solved in 18E, with 100k units of new capacity commencing operation from the beginning of 2018. We have confidence in two new models based on the Toyota New Global Architecture, *Camry*, launched in November 2017, and *C-HR*, to be introduced in mid-2018. With strong performance and numerous safety features, the new *Camry* achieved over 30k orders only two month after its release. We expect Toyota's sales volume to reach 505k units in 18E (+14.1% YoY) and 528k units in 19E (+4.6% YoY).

**Maintain BUY.** Given the firm's improving product mix and margin expansion, we maintain our diluted EPS forecast of Rmb1.46 in 17E (+53.7% YoY), Rmb1.90 in 18E (+30.1% YoY), and Rmb2.04 in 19E (+7.4% YoY). We maintain our target price of HK\$24.00 and, with 48.7% upside, our BUY rating.

**投资要点：**

广汽集团 1 月汽车销量达 21 万台，同比增长 25.1%，环比增长 17.9%，主要受益于自主品牌高端产品及日系品牌市场竞争力增强，产品需求持续扩张。我们维持 17 年摊薄 EPS 为人民币 1.46 元（同比增长 53.7%），18 年 EPS 为人民币 1.90 元（同比增长 30.1%），19 年 EPS 为人民币 2.04 元（同比增长 7.4%）。我们维持目标价港币 24.00 元，鉴于 48.7% 的上升空间，维持买入评级。

**良好开局。**广汽集团 1 月汽车销量达 21 万台，同比增长 25.1%，环比增长 17.9%。广汽乘用车实现销量 6.1 万台，同比增长 32.3%，主要受益于高端车型需求上升，以及健康的库存水平（2017 年底库销比约 0.8 个月）。广汽本田实现销量 7.2 万台，同比增长 38.4%，主要原因在于雅阁销量恢复明显。广汽丰田 1 月销量 4.6 万台，同比持平，随着 Camry 产能爬坡，我们预期广汽丰田月销水平将持续改善。我们预期广汽集团将受益于自主及日系品牌份额提升，实现收入及利润稳健增长，我们预计公司 2018 年实现汽车销量 226 万台（同比增长 13.0%），高于公司指引 10% 的销量增速。

**自主品牌升级。**由于新车周期驱动（GS8 产能爬坡，GM8 成功上市，GS4 于 18 年初中期改款），我们预期传祺销量将达到 18 年 67.9 万台（同比增长 30.4%），19 年 72.5 万台（同比 6.7%）。同时，由于高端车型占比由 17 年 21.8% 升至 18 年 29.5%，传祺产品结构不断改善，平均单价有望升至 9.2 万元（同比增长 1.4%）。因此，我们预期传祺综合毛利率由 16 年 17.9% 升至 17-18 年 22.3%，19 年 22.4%。

**日系持续发力。**2017 年，广汽丰田受制于有限的产能，销量维持较弱增长。随着 2018 年 10 万台新增产能逐渐释放，广丰产能瓶颈有望得到解决。2018 年，广汽丰田主要销量增长来自于 TNGA 架构下两款新车，新 Camry（2017.11 上市）和小型 SUV C-HR（2018 年中上市）。由于新 Camry 搭载强劲动力总成及丰富的安全配置，上市两个月未交付订单达 3 万台。我们预计广汽丰田 18 年实现销量 50.5 万台（同比增长 14.1%），19 年 52.8 万台（同比增长 4.6%）。

**维持买入评级。**我们预期 2018 年广汽集团将受益于产品结构改善及盈利水平提升，实现收入利润的稳健增长。我们维持 17 年摊薄 EPS 为人民币 1.46 元（同比增长 53.7%），18 年 EPS 为人民币 1.90 元（同比增长 30.1%），19 年 EPS 为人民币 2.04 元（同比增长 7.4%）。我们维持目标价港币 24.00 元，鉴于 48.7% 的上升空间，维持买入评级。

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We believe GAC will benefit from both the growing domestic sports-utility vehicle (SUV) market and increasing sales of Japanese vehicles, and expect the company's total auto sales to reach 2.3m units in 18E (+13.0% YoY), vs the company's guidance of 10% YoY growth. We expect GAC Toyota and GAC Motor to be the main sales growth drivers in 2018-19, given improving capacity and the future launch of competitive models, such as the eight-generation *Toyota Camry*, *Trumpchi GM8*, and *Trumpchi GS7*. By contrast, we expect GAC Honda's sales volume growth to decelerate in 18E, due to tight capacity and the lack of model launch plan.

Fig 1: GAC's passenger vehicle sales volume forecast

(units)	2012	2013	2014	2015	2016	2017	2018E	2019E
GAC Honda	316,405	435,480	480,060	580,068	638,791	705,010	708,923	716,400
GAC Toyota	250,088	303,088	374,108	403,088	421,800	442,380	504,963	527,998
GAC Motor	58,683	109,000	134,716	195,134	372,034	508,586	678,992	724,806
GAC Fiat Chrysler	11,288	48,375	68,090	39,488	146,439	205,177	215,493	220,649
GAC Mitsubishi	2,574	43,035	63,199	56,317	55,888	117,388	132,516	137,493
Others	73,197	65,637	52,137	25,565	15,143	22,495	20,000	20,000
<b>Total sales</b>	<b>712,235</b>	<b>1,004,615</b>	<b>1,172,310</b>	<b>1,299,660</b>	<b>1,650,095</b>	<b>2,001,036</b>	<b>2,260,887</b>	<b>2,347,347</b>
<b>YoY growth</b>								
GAC Honda		37.6%	10.2%	20.8%	10.1%	10.4%	0.6%	1.1%
GAC Toyota		21.2%	23.4%	7.7%	4.6%	4.9%	14.1%	4.6%
GAC Motor		85.7%	23.6%	44.8%	90.7%	36.7%	33.5%	6.7%
GAC Fiat Chrysler		328.6%	40.8%	-42.0%	270.8%	40.1%	5.0%	2.4%
GAC Mitsubishi		1571.9%	46.9%	-10.9%	-0.8%	110.0%	12.9%	3.8%
Others		-10.3%	-20.6%	-51.0%	-40.8%	48.6%	-11.1%	0.0%
<b>Total sales</b>		<b>41.1%</b>	<b>16.7%</b>	<b>10.9%</b>	<b>27.0%</b>	<b>21.3%</b>	<b>13.0%</b>	<b>3.8%</b>

Source: Company data, SWS Research

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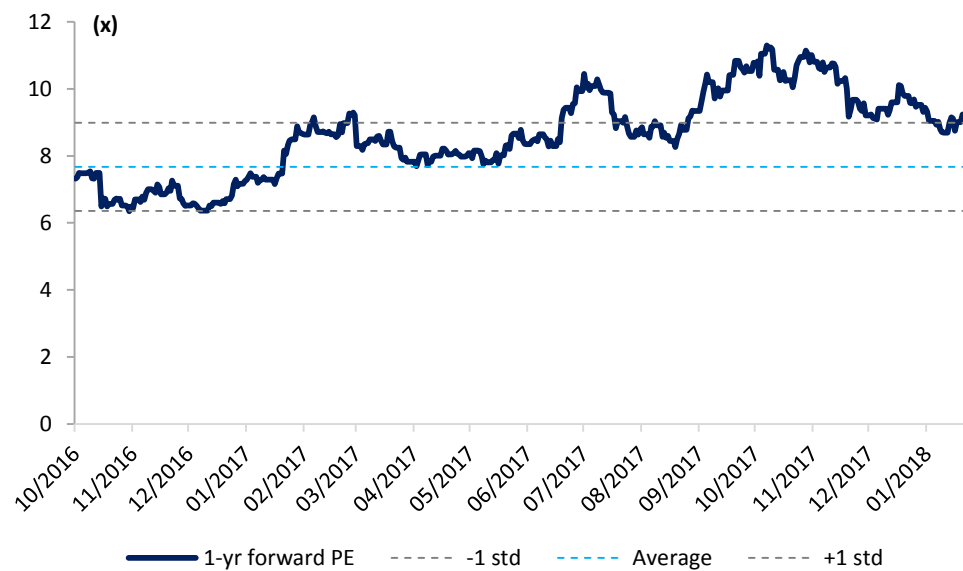
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numerous safety features, the new *Camry* achieved over 30k orders only two month after its release. We expect Toyota's sales volume to reach 505k units in 18E (+14.1% YoY) and 528k units in 19E (+4.6% YoY).

## Valuation

Given the firm's improving product mix and margin expansion, we maintain our diluted EPS forecast of Rmb1.46 in 17E (+53.7% YoY), Rmb1.90 in 18E (+30.1% YoY), and Rmb2.04 in 19E (+7.4% YoY). We maintain our target price of HK\$24.00 and, with 48.7% upside, our BUY rating.

Fig 2: Forward PE ratio



Source: Bloomberg, SWS Research

## Company financials

### Consolidated income statement

Rmbm	2015	2016	2017E	2018E	2019E
<b>Revenue</b>	29,418	49,418	62,011	82,512	88,981
Cost of Sales	25,975	41,961	50,455	66,609	71,868
<b>Gross Profit</b>	3,444	7,456	11,556	15,903	17,112
Other Income	435	331	620	825	890
Distribution expenses	1,867	3,396	4,155	5,363	5,784
Administrative expenses	2,037	2,739	3,225	4,126	4,360
<b>EBITDA</b>	2,047	4,324	7,785	10,649	11,715
EBIT	387	2,141	5,286	7,728	8,347
Finance Costs	849	963	1,056	1,092	1,109
<b>Profit before tax</b>	4,386	7,050	11,955	15,537	16,665
Income tax expense	400	754	1,136	1,476	1,583
Minority interests	(226)	8	13	17	18
<b>Profit for the year</b>	4,212	6,288	10,806	14,044	15,064

Source: SWS Research

### Consolidated Balance Sheet

Rmbm	2015	2016	2017E	2018E	2019E
<b>Current Assets</b>	27,994	34,945	56,896	64,561	72,589
Bank balances and cash	11,548	12,580	31,195	34,603	40,037
Trade and other receivables	8,727	8,371	11,143	14,452	17,149
Inventories	1,927	2,494	3,057	4,004	3,901
Other current assets	5,792	11,501	11,501	11,501	11,501
Long-term investment	40	60	60	60	60
PP&E	10,581	11,856	14,906	18,164	21,120
Intangible and other assets	4,827	5,319	6,117	7,035	8,090
<b>Total Assets</b>	67,220	82,146	110,016	125,285	140,898
<b>Current Liabilities</b>	18,656	24,273	28,987	33,674	37,950
Borrowings	4,279	4,478	4,998	5,498	5,498
Trade and other payables	14,077	19,128	23,254	27,368	31,564
Other current liabilities	300	667	734	808	888
Long-term liabilities	9,072	12,979	12,979	12,979	12,979
<b>Total Liabilities</b>	27,728	37,253	41,966	46,654	50,929
Minority Interests	845	1,037	1,174	1,223	1,262
<b>Shareholder Equity</b>	39,491	44,893	68,050	78,632	89,968
Share Capital	6,435	6,453	7,283	7,283	7,283
Reserves	11,321	11,848	25,933	25,933	25,933
Equity attributable	38,647	43,856	66,875	77,408	88,706
<b>Total Liabilities and equity</b>	67,220	82,146	110,016	125,285	140,898

Source: SWS Research

### Cash Flow Statement

Rmbm	2015	2016	2017E	2018E	2019E
<b>Profit before taxation</b>	4,386	7,050	11,955	15,537	16,665
Plus: Depreciation. and amortisation	1,660	2,183	2,499	2,921	3,368
Finance cost	(1,079)	(1,172)	1,172	1,172	1,172
Losses from investments	(191)	(112)	(112)	(112)	(112)
Change in working capital	2,629	1,239	792	(143)	1,601
Others	(3,515)	(4,278)	(10,068)	(11,656)	(12,324)
<b>CF from operating activities</b>	3,891	4,910	6,238	7,720	10,370
CAPEX	(4,322)	(5,212)	(6,642)	(8,397)	(8,521)
Other CF from investing activities	5,064	(902)	4,933	4,933	4,933
<b>CF from investing activities</b>	742	(6,114)	(1,709)	(3,464)	(3,588)
Equity financing	0	121	14,914	0	0
Net change in liabilities	(2,476)	3,267	520	500	0
Dividend and interest paid	(730)	(659)	(1,056)	(1,092)	(1,109)
Other CF from financing activities	(166)	(535)	(292)	(256)	(239)
<b>CF from financing activities</b>	(3,372)	2,194	14,087	(848)	(1,348)
<b>Net cash flow</b>	1,260	990	18,616	3,408	5,434

Source: SWS Research

### Key Financial Ratios

	2015	2016	2017E	2018E	2019E
<b>Ratios per share (RMB)</b>					
Earnings per share	0.65	0.98	1.48	1.93	2.07
Diluted earnings per share	0.65	0.95	1.46	1.90	2.04
Operating CF per share	0.60	0.76	0.86	1.06	1.42
Dividend per share	0.12	0.22	0.37	0.48	0.52
Net assets per share	6.14	6.97	9.34	10.80	12.35
<b>Key Operating Ratios(%)</b>					
ROIC	1.2	5.8	9.9	14.3	15.4
ROE	11.1	14.9	19.1	19.1	17.9
Gross profit margin	11.7	15.1	18.6	19.3	19.2
EBITDA Margin	7.0	8.8	12.6	12.9	13.2
EBIT Margin	1.3	4.3	8.5	9.4	9.4
Growth rate of Revenue(YoY)	13.2	68.0	25.5	33.1	7.8
Growth rate of Profit(YoY)	43.1	49.3	71.9	30.0	7.3
Debt-to-asset ratio	17.7	18.0	13.9	12.6	11.2
Turnover rate of net assets	77.8	117.1	109.8	112.5	105.6
Turnover rate of total assets	45.4	66.2	64.5	70.1	66.9
Effective tax rate (%)	9.1	10.7	9.5	9.5	9.5
Dividend yield (%)	0.7	0.6	0.9	1.6	2.7
<b>Valuation Ratios (X)</b>					
P/E	21.1	14.2	9.3	7.2	6.7
P/B	2.3	2.0	1.5	1.3	1.1
EV/Sale	3.9	2.3	1.8	1.4	1.3
EV/EBITDA	56.0	26.5	14.7	10.8	9.8

Source: SWS Research



## Information Disclosure:

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When measuring the difference between the markup of the security and that of the market's benchmark within six months after the release of this report, we define the terms as follows:

Trading BUY: Share price performance is expected to generate more than 20% upside over a 6-month period.

BUY: Share price performance is expected to generate more than 20% upside over a 12-month period.

Outperform: Share price performance is expected to generate between 10-20% upside over a 12-month period.

Hold: Share price performance is expected to generate between 10% downside to 10% upside over a 12-month period.

Underperform: Share price performance is expected to generate between 10-20% downside over a 12-month period.

SELL: Share price performance is expected to generate more than 20% downside over a 12-month period.

#### Industry Investment Rating:

When measuring the difference between the markup of the industry index and that of the market's benchmark within six months after the release of the report, we define the terms as follows:

Overweight: Industry performs better than that of the whole market;

Equal weight: Industry performs about the same as that of the whole market;

Underweight: Industry performs worse than that of the whole market.

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HSCEI is the benchmark employed in this report.

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