



Equity Research | China | Auto

18 May 2018

Lynk sales ramp-up may slow down prior to launch of 1.5T

- Geely facelift model will continue to strengthen product cycle in 2H18, which makes the company's 1.58mn shipment target look conservative, in our view.
- We anticipate *Lynk 01* sales ramp-up to begin to slow down after monthly shipments hit 10k units, due to limited room to increase production capacity albeit extending work shifts.
- We reiterate our PT of HKD30.0, pegging on FY18E 13.0x PER of Geely and FY18E 1.8x P/S of JV Lynk based on its profitable outlook in FY19E. Given 30% upside potential, maintain Buy rating.

Competitive facelift model launch to strengthen product cycle. Geely has accepted more than 2,000 units pre-orders of the newly launched *Borui* (博瑞) GE models with a starting price of RMB159.8k for the MHEVs and RMB198.8k for the PHEVs within one hour on 15-May. In our view, this is an outright demonstration of the competitiveness of its facelift models. Since the *Borui* GE models basically share the same production platform with the current ICE models which incur limited additional costs, we anticipate the margins of *Borui*'s models will thus be lifted continuously, in particularly once sales of the high-margin models ramp up in FY19E. Furthermore, Geely has sold c.128k units in Apr-18, up 49% YoY, amid the usual off-season and thus having attained 32% of the sales target for FY18E (1.58mn units in FY18E including *Lynk*) in the first 4 months. Meanwhile, given the low base during Jan-Aug in FY17, we anticipate Geely to post a more than 50% YoY shipment growth in May-18 that may drive the total shipments to ultimately largely outpace its year-end target.

Supply of *Lynk 2.0T* engines may begin to slow down after shipments hit 10k units. With the supply of the engines for the *Lynk 01* models having increased significantly to 9k units in Apr-18 from 6k units in Jan-18, we foresee production supply to begin to slow down in the near term, in particularly once monthly sales volume exceeds 10k units, given the limited room to raise production capacity at the Zhangjiakou powertrain plant albeit extending the work shifts. On such basis, we estimate monthly *Lynk 01* shipments to hover at around 10k units prior to 2H18 when the models equipped with the 1.5T engines are scheduled to be launched. Furthermore, we expect monthly production capacity will be increased substantially to more than 20k units in FY19E when the third CMA plant in Zhejiang (浙江) with a 300k unit production capacity, which will be exclusively used to produce the *Lynk 01* models, commences commercial operation.

Attractive valuation: We reiterate our PT of HKD30.0, pegging on FY18E 13.0x PER of Geely and FY18E 1.8x P/S of JV Lynk based on its profitable outlook in FY19E. Given the 30% upside potential, we will maintain our Buy rating.

**Geely
(175.HK)**

Buy

(unchanged)

Price Target **HK\$30.0**
(Revision) (Nil)
(upside) (30%)

EPS 2017E 2018E
revision (Nil) (Nil)

Close price HKD22.9

Market cap. USD26,241

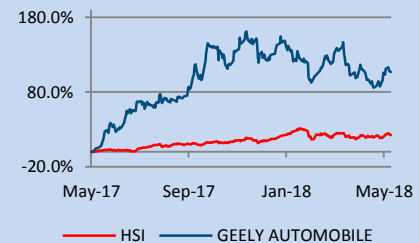
Free float 54.9%

52-week range HKD10.9 – HKD29.8

3-mth ave. T/O HKD1,289.9

Price as of 18th May, 2018

Stock rel HSI performance (%)



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Income statement (RMBm)

Year end: Dec	2015	2016	2017	2018E	2019E
Revenue	30,138	53,722	92,761	117,524	136,305
COGS	(24,668)	(43,880)	(74,779)	(93,314)	(107,681)
Gross profit	5,471	9,842	17,981	24,210	28,624
Selling expenses	(1,568)	(2,503)	(4,056)	(5,171)	(5,861)
General and administrative	(2,176)	(2,560)	(2,923)	(4,583)	(5,316)
Other operating expenses					
EBITDA	2,832	6,389	13,096	17,253	21,280
Depreciation & Amortization	(1,105)	(1,610)	(2,093)	(2,797)	(3,833)
Other income	1,066	1,130	1,229	2,468	2,862
EBIT	2,793	5,909	12,232	16,923	20,309
Net interest	(6)	(30)	(35)	134	106
JVs and associates	150	(9)	42	72	1,659
Pretax profit	2,875	6,204	12,774	17,102	22,046
Taxation	(586)	(1,034)	(2,039)	(2,856)	(3,682)
Minority interests	28	58	102	175	226
Net profit	2,261	5,112	10,634	14,070	18,139
Net profit (adjusted)					
Basic EPS (RMB)	0.26	0.58	1.19	1.60	2.06
Diluted EPS (RMB)	0.26	0.57	1.16	1.60	2.06
DPS (RMB)	0.03	0.11	0.24	0.40	0.51

Balance sheet (RMBm)

Year end: Dec	2015	2016	2017	2018E	2019E
Cash	9,167	15,045	13,415	26,872	36,123
Short term investments					
Accounts receivables	14,836	29,041	33,478	35,152	36,910
Inventory	1,226	3,066	6,027	5,786	5,555
Other current assets	118	97	88	98	99
Total current assets	25,348	47,249	53,008	67,909	78,687
PP&E	8,034	10,650	14,053	14,629	15,155
Intangible Assets	5,260	6,462	10,552	15,065	19,889
Associates and JVs	1,994	1,002	4,805	1,100	1,100
Other long term assets	1,656	2,220	2,563	3,444	4,658
Total long term assets	16,945	20,334	31,973	34,238	40,802
TOTAL ASSETS	42,292	67,583	84,981	102,147	119,489
Short term debt	-	174	1,296	1,000	1,000
Accounts payables	20,114	39,779	47,533	49,909	52,405
Other current liabilities	335	677	1,073	1,073	1,073
Total current liabilities	20,449	40,630	49,902	51,982	54,478
Long term debt					
Deferred tax	175	198	268	268	268
Convertible bonds					
Other long term liabilities	1,929	2,068	-	3,000	3,000
Total long term liabilities	2,104	2,266	268	3,268	3,268
TOTAL LIABILITIES	22,553	42,897	50,170	55,250	57,746
Shareholders' funds	19,524	24,437	34,467	46,378	60,999
Minority Interests	216	249	344	519	745
TOTAL LIAB AND EQUITY	42,292	67,583	84,981	102,147	119,489
Net cash / (debt)	9,167	14,871	12,118	25,872	35,123

Source: Company, Bloomberg, CSCI Research estimates

Cash flow statement (RMBm)

Year end: Dec	2015	2016	2017	2018E	2019E
EBIT	2,793	5,909	12,232	16,923	20,309
Depreciation & amortisation	1,105	1,610	2,093	2,797	3,833
Net interest	6	30	35	(134)	(106)
Taxes paid	(586)	(1,034)	(2,039)	(2,856)	(3,682)
Changes in working capital	3,470	1,538	(510)	934	968
Others	621	284	182	446	2,274
Cash flow from operations	7,409	8,338	11,994	18,111	23,598
Capex	(3,677)	(3,141)	(7,402)	(7,886)	(9,184)
Acquisitions	(1,143)	(1,384)	(1,729)	(244)	(385)
Disposals	696	98	1,103	-	-
Others	(411)	1,870	(3,884)	2,934	(1,097)
Cash flow from investing	(4,534)	(2,557)	(11,911)	(5,197)	(10,666)
Dividends	(174)	(281)	(960)	(2,160)	(3,518)
Issue of shares	-	-	-	-	-
Change in debt	(692)	163	1,122	(296)	-
Others	(65)	148	(1,847)	3,000	(163)
Cash flow from financing	(931)	29	(1,685)	544	(3,681)
Change in cash	1,944	5,810	(1,602)	13,457	9,251
Free cash flow	3,700	5,094	4,352	9,587	13,586

Key ratios

Year end: Dec	2015	2016	2017	2018E	2019E
Operating ratios					
Gross margin	18.15	18.32	19.38	20.60	21.00
EBITDA margin (%)	9.4	11.9	14.1	14.7	15.6
Effective tax rate (%)	20.4	16.7	16.0	16.7	16.7
Revenue growth (%)	38.6	78.3	72.7	26.7	16.0
Net income growth (%)	58.0	126.2	108.0	32.3	28.9
EPS growth adj (%)	58.0	125.7	105.3	34.0	28.9
DPS growth (%)	61.6	241.0	125.0	62.9	28.9
Efficiency ratios					
ROE (%)	11.6	20.9	30.9	30.3	29.7
ROCE (%)	12.8	21.9	34.9	33.7	31.2
Asset turnover (x)	0.7	0.8	1.1	1.2	1.1
Op cash / EBIT (x)	2.7	1.4	1.0	1.1	1.2
Depreciation / CAPEX (x)	0.3	0.5	0.3	0.4	0.4
Accounts receivable days	189.1	149.1	123.0	106.6	96.5
Accounts payable days	274.7	249.1	213.1	190.6	173.4
Leverage ratios					
Net gearing (%)	(47.0)	(60.9)	(35.2)	(55.8)	(57.6)
Net debt / EBITDA (x)	(3.2)	(2.3)	(0.9)	(1.5)	(1.7)
Interest cover (x)	433.7	196.3	347.2	(126.2)	(192.5)
Current ratio (x)	1.2	1.2	1.1	1.3	1.4
Valuation					
PER (x)	67.9	30.1	14.7	10.9	8.5
EV/EBITDA (x)	51.0	21.8	10.8	7.4	5.6
PBR (x)	7.9	6.3	4.5	3.3	2.5
Dividend yield (x)	0.2	0.6	1.4	2.3	2.9



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Company Rating Definition

The Benchmark: Hong Kong Hang Seng Index; Time Horizon: 12 months

Buy	12-month absolute total return: $\geq 10\%$
Hold	12-month absolute total return: $> -10\%$ but $< 10\%$
Sell	12-month absolute total return: $\leq -10\%$

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