

Analysts

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Basic Issuer Information

Issuer	Geely Automobile Holdings Limited
Equity Ticker	0175.HK
Corporate Ticker	GELYF
Credit Rating (M/S/F)	(Baa3/BBB-/N.R.)
Country of Risk	Hong Kong, China
Sector	Automobile Industry

1Y Price

GEELZ 3.000% 05032025



Source: Bondsupermart

Company Description

Geely Automobile Holdings Limited ("Geely") is an automobile manufacturer, focusing on development, manufacturing and sales of passenger vehicles.

Key Financials

RMB	FY18A	FY19A	FY20E	FY21E
Revenue (bn)	106.6	97.4	93.0	103.1
Gr Rate (%)	14.9	-8.6	-4.5	10.8
EBITDA (bn)	17.5	13.5	10.2	10.9
Margin (%)	16.4	13.9	14.9	15.1
Net CFO (bn)	13.9	12.5	24.8	23.7
Debt/EBITDA	0.2	0.7	0.3	0.3
EBITDA/Int	140	88	118	134
Current Ratio	1.0	1.0	1.1	1.1

Key Executives

Mr. Gui Sheng Yue	Chief Executive Officer
Mr. Li Shu Fu	Chairman
Mr. Li Dong Hui	Chief Financial Officer

Electrifying Opportunities Ahead

Recommendations

We are initiating coverage of Geely Automobile Holdings Limited ("Geely"). We have given an issuer profile rating of overweight to Geely's credit outlook. We will be focusing on GEELY 3.625% maturing on 25 Jan 2023, and GEELZ 3.000%, maturing on 5 Mar 2025.

Recent Developments

In the wake of COVID-19 related restrictions in early 2020, Geely initially reported a plunge in both automobile sales and production. In response, Moody's downgraded ratings outlook from stable to under review in March. However, with a strong pick up in Chinese automobile demand and prudent financial management at Geely, Moody's upgraded its ratings outlook to stable and reaffirmed Geely's Baa3 rating.

Key Credit Considerations

Even with the adverse economic climate in 2020, Geely has sufficient financial buffer to comfortably meet all its obligations in the short and medium term. Furthermore, Geely has shown its abilities to generate strong and sustained earnings with healthy margins.

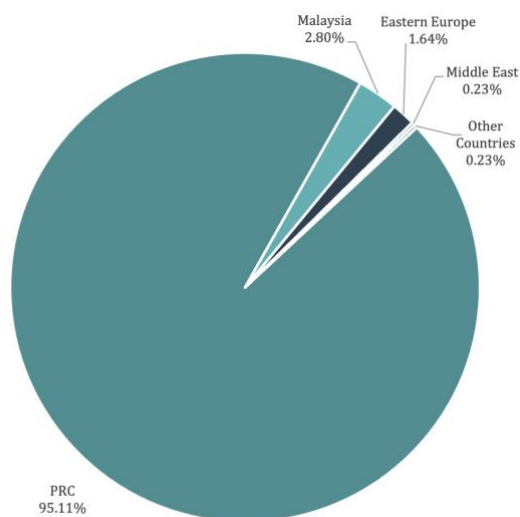
Credit Positives

- Strong rebound in Geely automobile sales volume in China and abroad despite economic headwinds
- Strong sales growth for Geely's new car models and brands
- Powerful model cycle based on platform strategy
- Well poised with strong technical capabilities to meet booming demand for new EV models

Credit Negatives

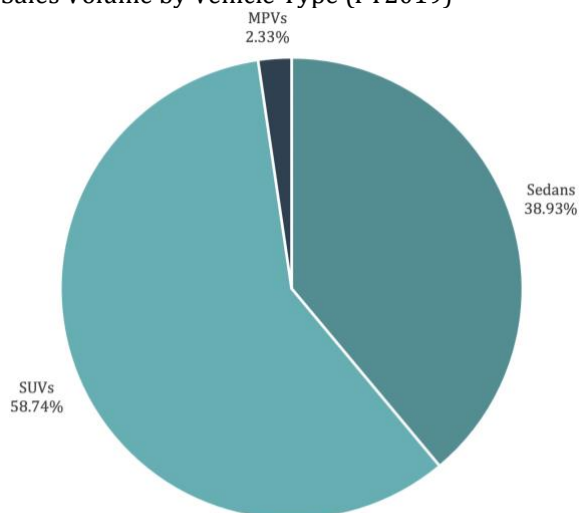
- Overexposure to the Chinese market as the vast majority of production and sales is located in Mainland China
- Execution risks associated with product and geographic diversification
- High R&D costs needed to counter GHG emissions
- Fallen angel risk due to weak parent financials

Figure 1.
Geely Revenue Breakdown by Regions (FY2019)



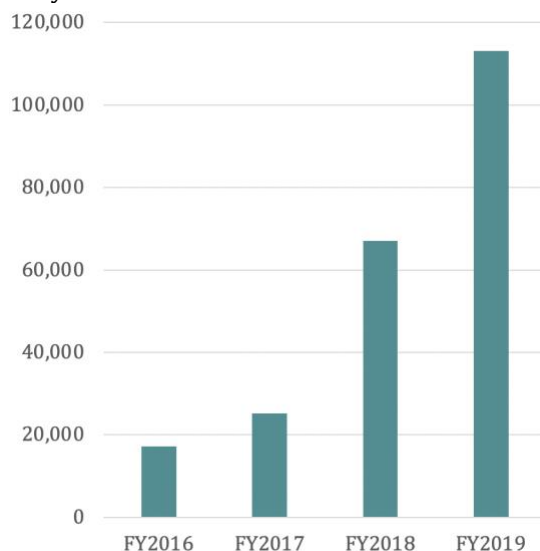
Source: Annual Report

Figure 2.
Sales Volume by Vehicle Type (FY2019)



Source: Geely Investor Presentation

Figure 3.
Geely EV Sales



Source: Geely Investor Presentation

Company Overview

Geely Automobile Holdings Limited ("Geely") is an automobile manufacturer based in China. Geely's parent company is Zhejiang Geely Holding Group Company Limited ("Zhejiang Geely"), a private company incorporated in the People's Republic of China wholly owned by Mr. Li Shu Fu.

Geely's shares are listed on the main board of Hong Kong Stock Exchange. With its headquarter established in Hangzhou, most of its manufacturing facilities are located in the PRC. It sells "Geely", "Lynk&Co", "Geometry" branded cars through an extensive network of more than 900 dealers in the PRC, and over 250 Lynk&Co Centres and 21 Lynk&Co Spaces in the PRC. Geely also exports its products to developing countries in Eastern Europe and the Middle East.

As of 15 December 2020, Geely's market capitalisation stood at USD 29.32 billion. Today, Geely has 38,000 employees worldwide and generated an annual revenue of over US\$ 14 billion in FY2019.

Revenue by Geographical Region

Geely sells its products primarily within the Chinese domestic market and to overseas markets such as Malaysia, Eastern Europe and the Middle East. In FY2019, the Chinese domestic market accounted for 95.11% (figure 1) of Geely's annual revenue, followed by Malaysia (2.80%), Eastern Europe (1.64%), the Middle East (0.23%), and Other Countries (0.23%).

Sales Volume by Vehicle Type

The SUV segment formed the bulk (58.74%) of Geely's annual car sales volume in FY2019 (figure 2), followed by the Sedan segment (38.93%) and MPV segment (2.33%). Geely is a relatively new entrant to the MPV segment, having launched its first MPV recently in March 2019.

Geely's vehicle sales can be further segmented by conventional vehicles and new electric vehicles ("EV"). In 2015, Geely implemented a new EV strategy - "Blue Geely Initiatives" - to transform the Group to be an industry leader in EV. Geely's EV segment has been growing rapidly (figure 3) at 60.17% CAGR between FY2016 and FY2019, outpacing the growth of conventional vehicle sales (13.63% CAGR) over the same period

Main Customers and Suppliers

Geely's five largest customers and its largest customer, Hangzhou Youhang Technology Company Limited, contributed to 3.1% and 1.1%, respectively, to the Group's total annual revenue in FY2019. Hangzhou Youhang Technology Co. Ltd. is a related company controlled by Mr. Li Shufu.

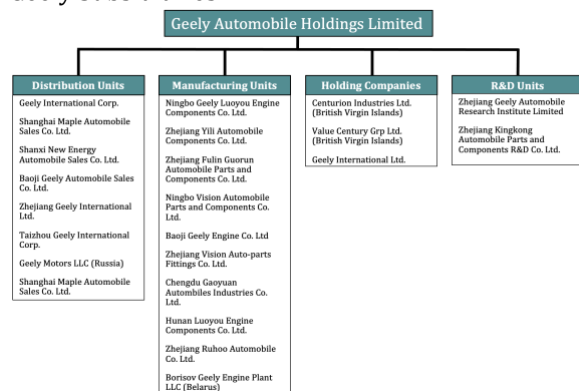
Geely's five largest suppliers and its largest supplier contributed to 13.8% and 3.7%, respectively, to the Group's total annual purchases in FY2019. The third largest supplier, Zhejiang Geely Automobile Parts and Components Company Limited, is a related company controlled by Mr. Li Shufu.

Subsidiaries and Associated Companies

Geely operates an extensive network of wholly-owned subsidiaries (figure 4), primarily in the PRC, for the manufacturing, research and development, distribution, and sales of Geely automobiles.

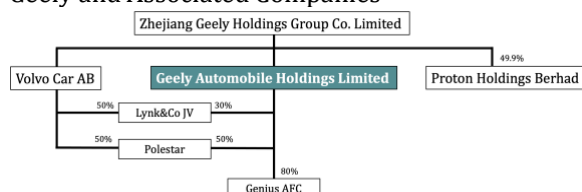
Genius Automobile Finance Company Limited ("Genius AFC") is a 80%-owned vehicle financing joint-venture (figure 5) formed with BNP Paribas Personal Finance. It is principally engaged in the provision of auto wholesales financing solutions to auto dealers and retail financing solutions to end customers, mainly supporting key auto brands associated with Geely, including "Geely", "Lynk&Co" and "Volvo Car".

Figure 4.
Geely Subsidiaries



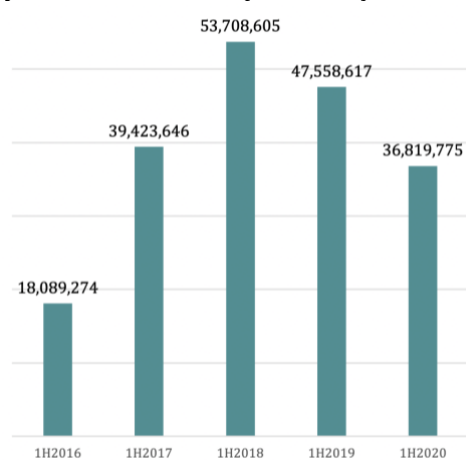
Source: Geely Annual Report

Figure 5.
Geely and Associated Companies



Source: Geely Annual Report

Figure 6.
Geely First Half Revenue (RMB '000)



Source: Geely Investor Presentation

Figure 7.
Major Shareholders (Top 5)

	Holder Name	% Outstanding
1	Zhejiang Geely Holding Group Co., Ltd.	40.95
2	The Vanguard Group, Inc.	1.88
3	BlackRock Fund Advisors	1.08
4	Hang Seng Investment Management Ltd.	1.02
5	Mr. Li Shu Fu	0.99

Source: FactSet

Through its parent company, Zhejiang Geely, Geely works closely with Volvo Car AB ("Volvo") in technological development. Dealers of Volvo also recommend its retail consumers to use Genius AFC for vehicle loans to finance their purchase of Volvo-branded vehicles.

Geely and Volvo have also entered into joint ventures to manufacture and sell vehicles under the "Lynk&Co" and "Polestar" brand. "Lynk&Co" targets the high-end passenger vehicles market in both the China and international markets while "Polestar" produces EV.

Through its parent company, Geely is also associated with Proton Holdings Berhad ("Proton"). In May 2017, Zhejiang Geely acquired 49.9% equity interest in Proton. After this acquisition, Geely entered a sales agreement in Sep 2018 to license its intellectual properties and sell after-sales parts to Proton through Zhejiang Geely.

Recent Earnings Review

Geely's performance in the first half of 2020 was adversely affected by the outbreak of COVID-19.

Total revenue in the first half of 2020 (figure 6) decreased 23% year-on-year to RMB36.82 billion, due to lower sales volume and the production disruption caused by the partial lockdown in most areas in China in early 2020. Geely's total sales volume in the China market decreased 17% yoy, while export sales volume slid 49% yoy on the back of tepid global demand caused by the outbreak of Covid-19 worldwide.

Average selling price declined 2.4% and operating margins narrowed 3.46% to 5.7% due to operating deleverage, greater dealer incentives, higher R&D and D&A expenses. Net profit was down 43% yoy, and dealer inventory was at three months of sales at the end of July.

Geely has lowered its 2020 shipment target to 1.32 million units from 1.41 million, implying an 11% increase in 2H2020 vs a year ago.

EV and SUV models remained the focus of Geely's new products offering in 1H2020. Geely launched a new compact SUV model "ICON" and its EV variant, its first seven-seat SUV model "Geely Haoyue" and a new crossover model "05" under the Lynk&Co brand.

Ownership & Management

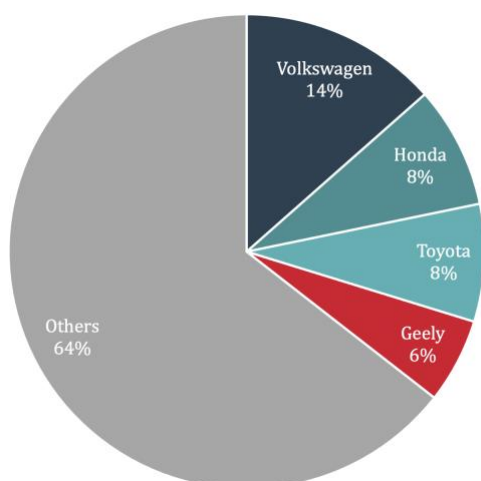
Zhejiang Geely Holding Group Co. is the largest shareholder and parent company of Geely (figure 7). Geely's founder and current chairman, Mr. Li Shu Fu, has effective ownership of Geely as he personally owns 0.99% of the company and is also the controlling shareholder of Zhejiang Geely.

Zhejiang Geely has historically reported higher leverage than Geely, but this situation is partially mitigated by Geely's status as a listed and regulated entity, and its track record of maintaining sound corporate governance.

Geely's independent non-executive directors review the connected transactions with its parent that supports Geely's passenger vehicle production in China through its parent's licenses. These transactions are also subject to annual transaction caps approved by the Hong Kong Stock Exchange and independent shareholders.

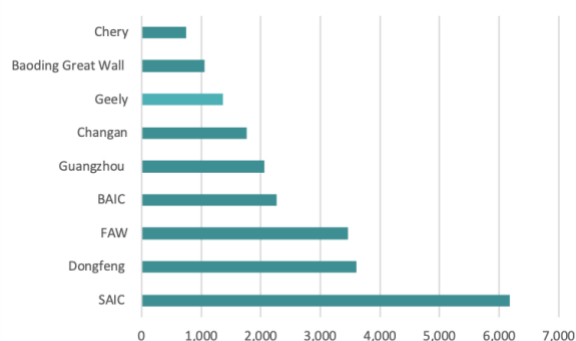
The next 3 largest shareholders are institutional fund managers, with Vanguard Group, one of the largest asset management firms in the world, having the most substantial stake with 1.88% of outstanding shares.

Figure 8.
Largest Automobile Manufacturers in China
by Sales Volume (Jan-Nov 2020)



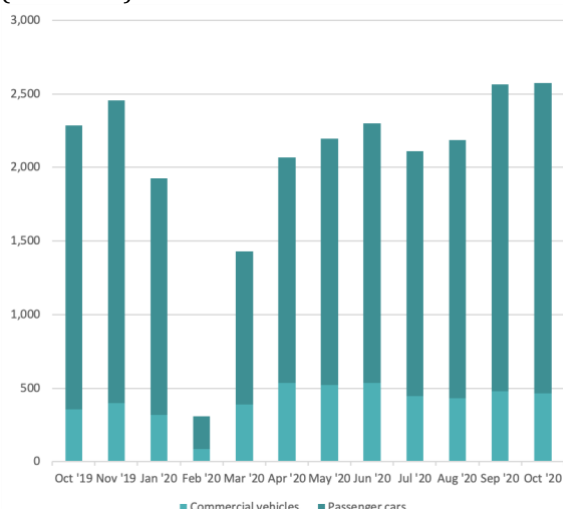
Source: CarSalesBase

Figure 9.
Largest Chinese Automobile Manufacturers
by Sales Volume (in 1,000 units) (2019)



Source: Gasgoo

Figure 10.
Monthly automobile sales in China 2019-2020
('000 units)



Source: CAAM

Industry Outlook

China Outlook

China is the world's biggest automobile market with 26 million unit sales in 2019, with the US reaching only 65% of that at 17 million. The passenger vehicle market that Geely competes in posted 21 million unit sales. There is sizable growth potential through market share due to China's low penetration of about 186 vehicles per 1,000 people in 2019. Hence, China's auto market should achieve sustainable growth in passenger vehicle unit sales over the medium term.

However, demand has been slowing in recent years since 2018, with a 4% and 10% fall in total Sedan, SUV and MPV sales in 2018 and 2019 respectively. Nevertheless, Geely has maintained its market share as the third largest passenger vehicle brand and seventh largest automaker by unit sales in China in 2019.

Competitive domestic automobile market

The Chinese automobile market has been facing significant overcapacity with all automakers increasing their focus on the entry-level mass market models, leading to sustained high levels of competition. The competitive pressure requires automakers to maintain high levels of capex and R&D, while shortening the time any model can remain popular in the market. Major international manufacturers like Volkswagen, Honda, Toyota (*figure 8*) compete on product and brand, while a large number of local competitors including Dongfeng, China Grand Auto compete on price and value (*figure 9*). This has placed sustained profitability pressure on Geely and prevents significant margin improvement.

Geely's upmarket brand Lynk & Co. may ease pressures from overheating competition in the low-end, mass-market brand. A strong high value model lineup variety in 2021, will bring to market a variety of new high value models based on Geely's world-class BMA, CMA, SPA, and new SEA modular architectures, covering multiple segments from compact to full size and powertrain from pure electric to hybrid to traditional gasoline power.

China's recovery from COVID-19

China leads the global auto industry in recovering from lows hit during the COVID-19 pandemic. From a 46% decrease in total sedan, SUV, MPV and EV monthly sales in April, sales rebounded with a strong 20% in September, driven by pent-up demand and a notable 41% increase in EV sales (*figure 10*).

China's automakers liquidity and leverage position

Nevertheless, free cash flow in 2020 may be pressured, given a large operating outflow in 1H2020. Capex for most automakers is significant due to R&D and expansion in EV while operating margins are narrowed with increasing dealer incentives. Liquidity and leverage may improve from 2021 with improved earnings. Geely and Dongfeng have comparatively stronger financial profiles (*figure 11*) with a sustainable net cash position while Grand Auto's liquidity profile is weak due to high reliance on short-term debt.

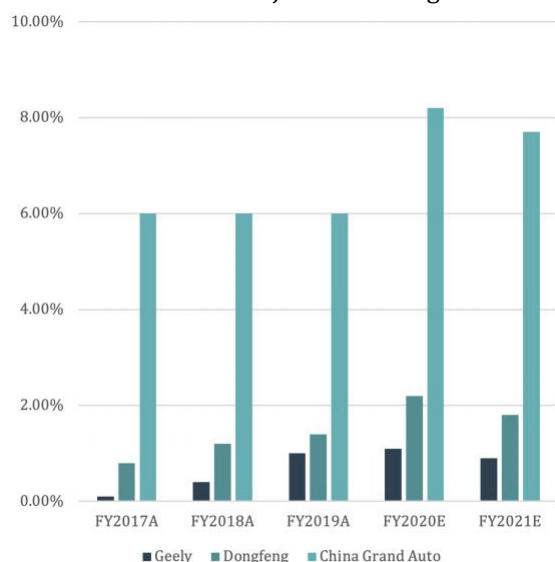
Growing Chinese demand for premium brands

Premium brands due to Chinese buyer's consumption upgrade led to Japanese and German brands sales growth outpacing the others, increasing competition for market share. Geely's shipments, excluding those of its upmarket brand, fell 12% in 2019, underscoring the mounting pressure on China's low-end, mass-market auto brands.

Shifts towards EV

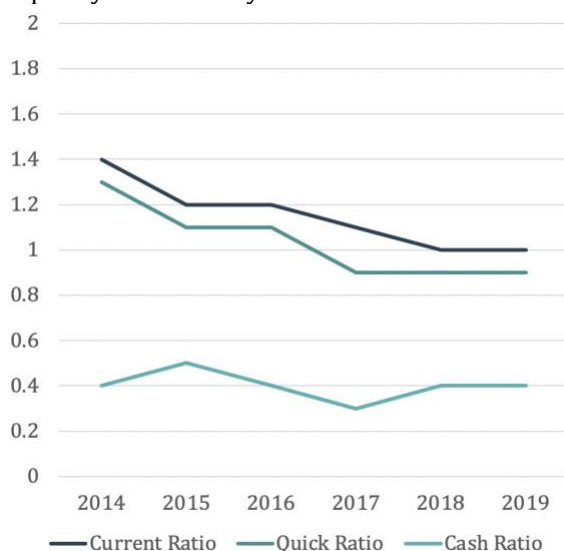
China's race to become carbon neutral by 2060 has shaped a broader shift towards EV. With hybrid offerings, the target five-year EV sales mix target will be revised down to 11% from the original 20% of passenger-vehicle unit sales to keep emissions cuts on track as these

Figure 11.
Chinese Automakers Adjusted Leverage



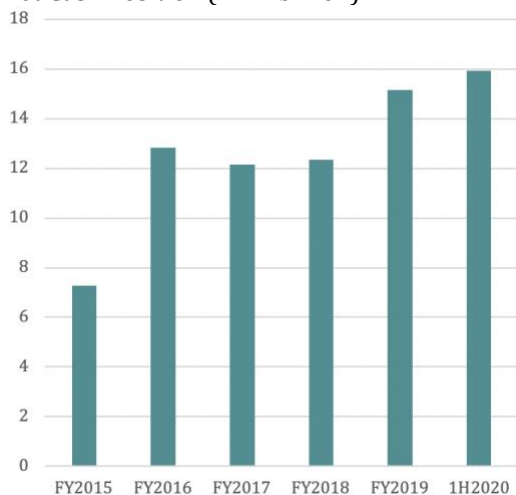
Source: Bloomberg Intelligence

Figure 12.
Liquidity and Solvency Ratios



Source: Geely Annual Reports

Figure 13.
Net Cash Position (RMB billion)



Source: Geely Annual Reports

hybrids can help offset carbon emissions. Geely, along with its competitors such as BYD and Li Auto, are most likely beneficiaries as their EV sales exceed those of Volkswagen and General Motors, which are the largest automakers in China. An estimated 21% of passenger vehicles on China's roads will be EVs in 2031.

Financial Analysis

Geely Automobile Holdings Limited - Financial Ratios								
	2015A	2016A	2017A	2018A	2019A	2020E	2021E	2022E
Profitability								
Return on Assets (%)	5.41	7.65	12.63	13.86	7.65	6.7	6.3	6
Return on Total Capital (%)	7.04	9.35	15.22	16.48	9.05	8.2	7.8	7.6
Gross Margin (%)	18.15	18.32	19.38	20.18	17.37	18.7	18.7	18.7
Operating Margin (%)	5.53	8.82	11.83	12.38	7.66	8.4	7.9	7.6
Net Income Margin (%)	4.06	7.52	10.25	10.73	7.22	9	8.7	8.7
Activity								
Receivables Turnover	2.2	2.7	3.1	4	4.1	3.9	4.1	4.1
Inventory Turnover	11	16.3	14.2	15.7	18.6	12.9	14	13.7
Payables Turnover	2.2	2.7	2.9	2.9	2.3	1.33	1.26	1.24
Liquidity								
Current Ratio	1.2	1.2	1.1	1.0	1.0	1.1	1.1	1.1
Quick Ratio	1.1	1.1	0.9	0.9	0.9	1	1	1
Cash Ratio	0.5	0.4	0.3	0.4	0.4	0.6	0.6	0.7
Financial Leverage								
Total Debt to Equity	9.9	9.2	3.8	7.6	14.9	6.8	6.1	2.7
Total Debt to Assets	4.6	3.3	1.5	3.7	7.1	3.3	2.9	1.3
Total Debt to EBITDA	0.7	0.3	0.1	0.2	0.7	0.3	0.3	0.1
EBITDA to Interest Expense	27.5	55.4	117	140	88.1	118.4	134.1	147

Source: Team Estimates

Overview

The table above shows Geely's 5-year historical financial performance including key ratios indicating their profitability, activity, liquidity and leverage positions.

Healthy unit sales

Total sales volume grew 21.70% CAGR between 2015-2019. During this period, Geely launched its high-end line up, Lynk&Co, in 2017 and its first MPV in 2018. This represents Geely's upward stretching efforts and also its diversification into all the major segments (sedan, SUV and MPV) in China's passenger vehicle market.

However, sales volume declined from its peak in 2018, falling 9% YoY in 2019. This was primarily due to weakness in China's passenger vehicle market in 2019 caused by economic uncertainties arising from the trade dispute between China and the USA, the elimination of purchase tax subsidies for fuel efficient vehicles, and new emission standards. Thus, we expect the fall in sales volume in 2019 to be one off and not be of concern. Moving forward, we expect sales volume to rebound in 2021 and grow moderately in 2022, driven by overseas sales growth from Lynk&Co cars and EV.

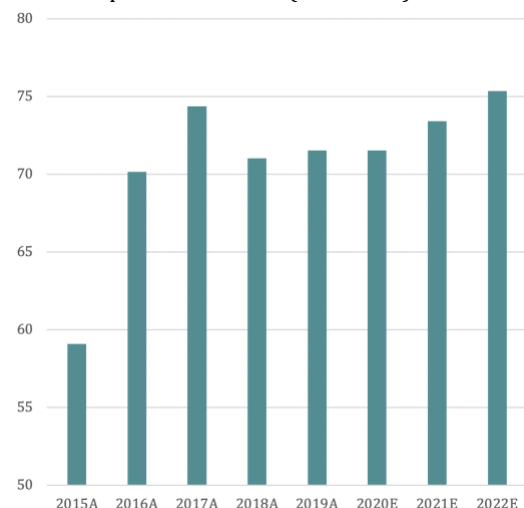
Strong liquidity position

Geely's decreasing current ratio and quick ratio (figure 12) since 2014 is unlikely to be a cause for concern. Since 2012, Geely has maintained a growing net cash position of RMB15 billion in 2019 (figure 13).

Furthermore, in June 2020, Geely raised HK\$6.48 billion (\$832 million) from a share placement of 600 million new primary shares. Geely plans to use the net proceeds for business development, general working capital and to maintain liquidity after reporting a sharp plunge in revenue and profits in the first half of 2020. This issuance provides an additional liquidity buffer for Geely to comfortably meet its operational expenditure and debt obligations without raising its leverage.

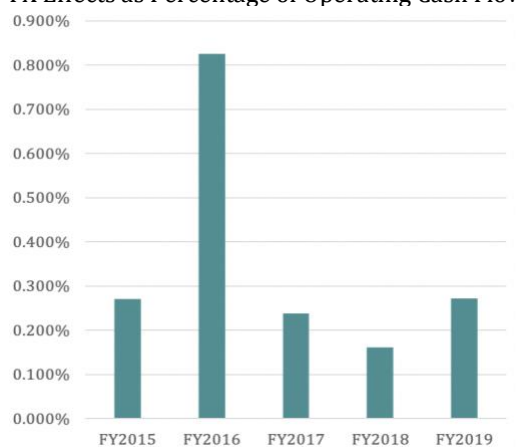
We expect Geely's liquidity position to remain strong in the coming years. The management has shown prudence in cash management. For instance, in 1H2020, it cut capital expenditure by 11% to preserve cash, on top of the share placement. Furthermore, we expect Geely to

Figure 14.
Revenue per Vehicle Sold (RMB '000)



Source: Geely Annual Reports

Figure 15.
FX Effects as Percentage of Operating Cash Flows



Source: Geely Annual Report

continue generating positive cash flows on the back of moderate earnings growth.

Increasing profitability margins

Apart from a dip in growth in FY2019 due to weaker consumer demand, Geely's gross profit margin, operating margin and net income margin have recorded moderate growth between FY2014 and FY2018. Even considering the dip in FY2019, Geely's average operating profit margin over the past 5 years remains healthy at 17.04%.

Geely has also experienced modest topline growth with average revenue per unit sold between 2015 and 2019 (*figure 14*) increasing by 3.90% CAGR. Moving forward, we expect revenue per unit to grow moderately in 2021 and 2022 fuelled by higher-priced models and stronger overseas car sales.

Increasing, albeit healthy, financial leverage

Geely's debt-to-equity ratio has risen sharply from its low of 3.8% in FY2017 to 14.90% in FY2019. This was mainly driven by an increase in borrowings for capital expenditure. Nevertheless, even with the sharp increase in FY2019, Geely's financial leverage remains healthy, with a debt/EBITDA ratio of 0.7 in FY2019. Furthermore, Geely has ample interest coverage, with EBITDA-to-Interest ratio of 88.1 in FY2019. This indicates Geely is unlikely to face difficulties paying the interest on its existing obligations to creditors.

Moderate exposure to FX risks

Geely is listed on the Hong Kong Stock Exchange and traded in HKD. However, Geely's operations are principally to domestic sales in Mainland China and its assets and liabilities are mainly denominated in RMB. It also has increasing exposure to other currencies such as the USD and Malaysian ringgit (MYR) due to increasing car exports to international markets.

Nevertheless, even with increased overseas sales, we consider FX risks for Geely to be low to moderate. Historically, Geely has managed and hedged against FX fluctuations adequately; FX changes have averaged to be less than 1% of operating cash flows for the past 5 years (*figure 15*).

Recent developments

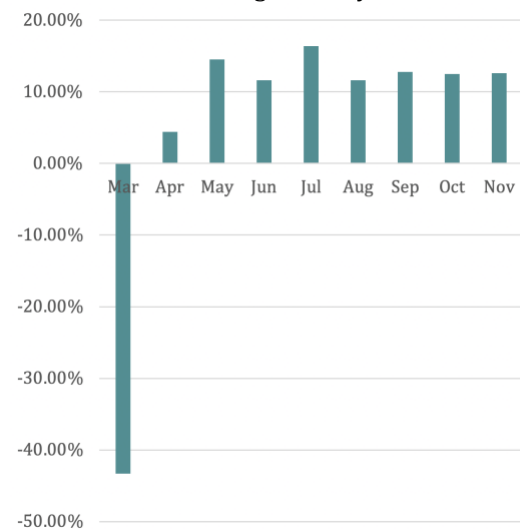
Secondary Listing on Shanghai Stock Exchange's Sci-Tech Innovation Board (STAR Market)

On 28 September 2020, Geely secured approval for its proposed listing on the STAR Market. It plans to raise 20 billion yuan (\$2.93 billion) from a public share sale, with the proposed number of RMB shares to be issued will be no more than 15% of the Company's issued share capital as of 23 June 2020. Geely intends to use the proceeds for research and development of new automobile products, prospective technology research and development, industrial acquisition, and replenishment of working capital.

Merger with Volvo

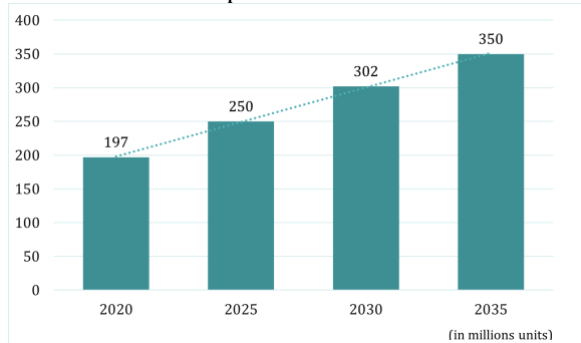
On 10 February 2020, Geely announced a possible merger with Volvo, where the combined entity would be listed on the Hong Kong and Shanghai stock exchanges. Details are still unknown and talks have been put on hold as focus was turned to post-COVID sales recovery. Volvo CEO has indicated talks will likely resume in earnest early 2021. The merger could realise synergies in cost structure and new technology development. Due to the aforementioned listing on the Sci-Tech Board, Geely is currently prohibited from making changes to its capital structure. Geely may need up to \$12 billion to finance the deal as Volvo's market value could range from \$8.1-\$11.6 billion. It could tap the debt and equity capital markets to finance its merger, as suggested by its preliminary push for a listing on the Sci-Tech Board.

Figure 16.
China Auto Sales YoY growth by Month in 2020



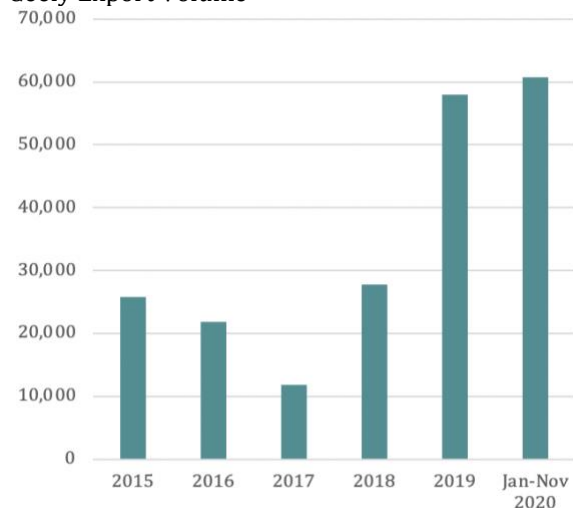
Source: China Association of Automobile Manufacturers (CAAM)

Figure 17.
Forecasted vehicle parc in China 2020-2035



Source: Statista, Ministry of Public Security China

Figure 18.
Geely Export Volume



Source: Geely Annual Reports and Investor Presentation

Moody's credit rating outlook upgrade

On 12 June 2020, Moody's confirmed Geely's credit rating as "Baa3" and upgraded its outlook from "rating under review" to "stable" on strong recovery of the Group's sales in China since April 2020. Moody's had previously downgraded Geely's outlook on 26 March 2020 due to challenging industry conditions after the global outbreak of Covid-19.

Joint ventures with battery makers

In April 2019, Zhejiang Jirun Automobile Co., a Geely subsidiary, formed a RMB 1 billion joint venture with major domestic EV battery supplier Contemporary Amperex Technology ("CATL"). In June 2019, Geely announced plans to establish a US\$188 million (RMB 1.3 billion) joint venture with Korean battery supplier LG Chem, where both parties would invest US\$94 million each in the venture. It is expected to have an annual production capacity of 10 GWh by the end of 2021, and its products would be supplied to Geely's electric vehicles from 2022.

Issuer Credit Analysis

Credit Positives

1. Robust recovery of automobile demand in China

Despite an initial sharp plunge in Chinese auto sales in early 2020, it has since rebounded strongly (figure 16). This trend is expected to continue into 2021 on the back of China's economic recovery.

Geely is also expected to benefit from the latest 14th Five-Year Plan (2021-25) and China's focus on "dual circulation". The Chinese government has doubled down on efforts to develop the domestic market and stimulate domestic demand. The government plans to increase China's urbanisation rate to 75-80% over the next 15 years, fuelling demand for automobiles to promote city development. The Chinese government forecasted a steady increase in vehicle parc to 350 million units by 2035 (figure 17). Geely's EV business further stands to gain from China's move towards green technologies and reduction in carbon emissions.

2. Sustained unit sales growth in new models and brands

Lynk&Co has reported strong car sales growth in 2020, posting record high sales volume for 5 consecutive months since June 2020. In November 2020, it sold 22,800 units, the highest since the brand was launched.

Among "Geely" branded cars, Boyue has performed well in Chinese and Malaysian markets, ranking as the 3rd and top best-selling SUV models in the respective markets. Overall, we expect Geely to continue to be able to launch competitive and commercially successful car models that will grow its revenue in the medium term.

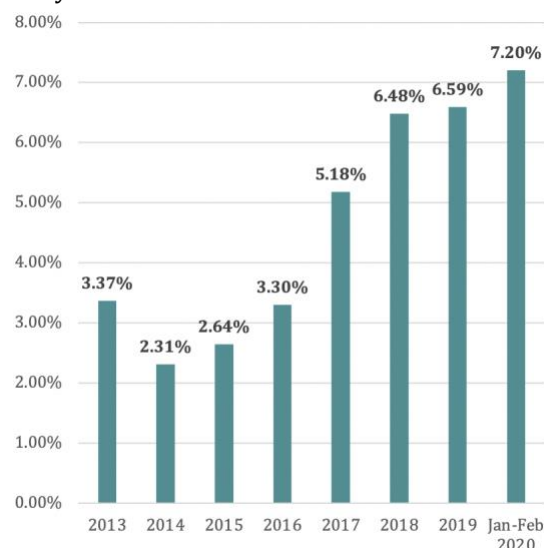
3. Powerful model cycle based on platform strategy

It will launch 5 new models in 2021 (2 new EV models under the PMA platform and 3 new ICEs with hybrid versions) and 4 new EV models (from PMA) equipped with L4/L5 autonomous driving functions in future. Such an aggressive model launch pipeline makes Geely well-poised to capture more market share continuously in an operationally efficient manner as it benefits from the scale effect brought by its platform strategy.

4. Strong capabilities and demand for new EV models

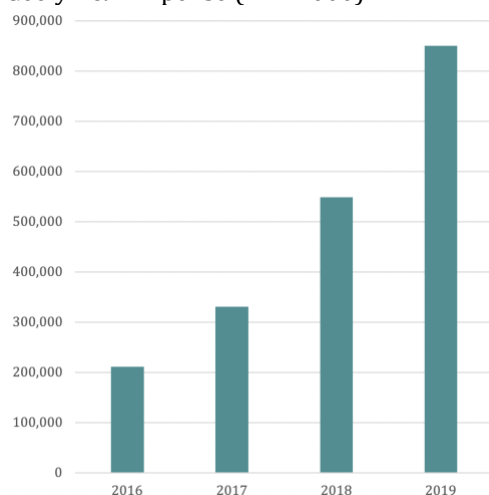
Geely has been ramping up its R&D spending on EV and increasing its EV lineup. We expect this to give Geely a competitive position to fend off EV competitors in China such as Tesla and BYD. Furthermore, the EV market share in China is expected to rise to 11-14% by 2022 according to a McKinsey report. Thus, we believe that Geely is well poised to leverage this growing market opportunity to diversify away from its existing lineup of conventional vehicles.

Figure 19.
Geely Market Share in China



Source: CarSalesBase

Figure 20.
Geely R&D Expense (RMB '000)



Source: Geely Annual Reports

Geely's joint ventures with lithium-ion battery makers CATL and LG Chem would also be able to ease pressures on its margin through pursuing vertical integration at its EV business. The planned battery ventures could yield a competitive edge, with benefits from two aspects. Firstly, it gains from a reliable, cost-effective supply of batteries. Secondly, it gains half the venture's profit from the 50:50 Geely-LG Chem battery venture and 51:49 CATL-Geely battery venture.

Credit Negatives

1. Geographical concentration in the Chinese market

As mentioned above, Geely's revenue is geographically concentrated in the Mainland Chinese market (95.11% in FY2019). Thus, Geely revenue and profitability is highly sensitive to any changes in the Chinese market and the RMB. Nevertheless, we are confident of Geely's efforts to diversify into international markets. This has been done primarily through launching high-priced models under the Lynk&Co brand in Europe. In addition to export of vehicles from China, Geely also assembles some models sold overseas using contract manufacturing arrangements with local partners. Thus far, this has been largely successful as Geely's exports have increased steadily since 2017 (*figure 18*). We expect this export growth to continue in 2021 and 2022, thereby reducing Geely's revenue concentration in the Chinese market.

2. Execution risks associated with product and geographic diversification

Geely faces risks associated with broadening its product lineup to include higher-priced models. The Chinese automobile is highly competitive. Geely faces stiff competition from international manufacturers such as Toyota and Volkswagen, as well as domestic manufacturers such as Dongfeng Motor Group and Guangzhou Automobile Group. These competitors compete on product and brand, while a large number of local competitors compete on price and value. Chinese carmakers, including Geely, have ramped up R&D expenses to produce new, competitive models.

Despite the competitive nature of the market, Geely has been able to gain market share (*figure 19*). Moving forward, we expect Geely to continue to gain market share as it continues to produce new commercially competitive car models.

As Geely expands overseas, it also faces stiff competition against incumbent carmakers in various international markets. Nevertheless, we are confident of Geely's strategy to partner with local carmakers to successfully enter new markets. For instance, Geely sells vehicles in Europe under the Lynk&Co JV in which Geely partners with Volvo. Likewise, in the Malaysian automobile market, Geely partners with Proton to sell Geely branded cars.

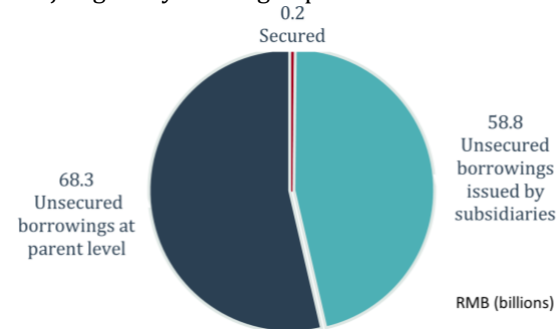
3. High R&D costs needed to counter GHG emissions

Geely is facing increasingly stringent regulation in China and globally when it comes to greenhouse gas emissions. EV only accounts for about 8% of total sales volume in 2019, but it is quickly ramping up EV offerings. Geely will have to invest substantially in EV R&D (*figure 20*) and new model launches in the next few years to meet China's dual-credit requirements on domestic auto makers.

4. Fallen angel risk due to weak parental financials

Geely's US\$300 million senior unsecured notes ratings are equalized with its issuer credit rating because there are no subordination risks. As of 30 June 2020, all of Geely's RMB 4.2 billion debt was unsecured debt at parent level. Due to weak parent financials, Geely's bonds may suffer a downgrade. Zhejiang Geely's debt to EBITDA ratio was at a high 2.2x in 2019 and lower profit and free cash outflow could weaken it to close to 3x in 2020. This was largely attributed to high capex, including capitalized R&D costs of over RMB40 billion in 2018-2019, and acquisitions that significantly increased total debt. Leverage will

Figure 21.
Zhejiang Geely Holding Capital Structure



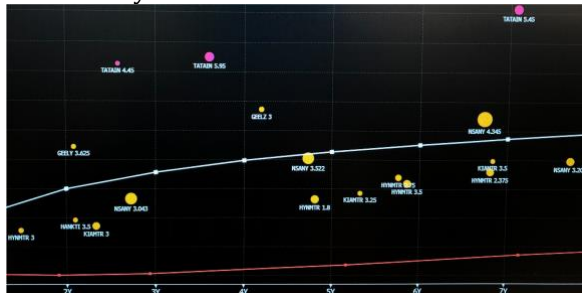
Source: S&P 500

Figure 22.
Bond Comps of Geely Automobile

Security	Coupon	Amount	Currency	S&P Rati	Rank	Price (261220)	Yield
B+ (4)							
TATAIN 5.95 07/31/24	5.95	1000MM	USD	B+	Sr Unsecl	107.64	3.708
TATAIN 5.45 01/20/28	5.45	1000MM	USD	B+	Sr Unsecl	105.6	4.57
TATAIN 4.45 07/25/28	4.45	300MM	USD	B+	Sr Unsecl	102.35	3.53
BBB (1)							
HANKTI 3.5 01/30/23	3.5	300MM	USD	BBB	Sr Unsecl	105.2	1.032
BBB- (8)							
GEELY 3.625 01/25/23	3.625	300MM	USD	BBB-	Sr Unsecl	102.97	2.152
GEELZ 3 03/05/25	3	400MM	USD	BBB-	Sr Unsecl	100.34	2.912
NSANY 3.043 09/15/23	3.043	1500MM	USD	BBB-	Sr Unsecl	104.64	1.329
NSANY 3.522 09/17/25	3.522	1500MM	USD	BBB-	Sr Unsecl	106.74	2.012
NSANY 4.345 09/17/27	4.345	2500MM	USD	BBB-	Sr Unsecl	109.76	2.73
NSANY 3.201 09/17/28	3.201	750MM	EUR	BBB-	Sr Unsecl	108.52	1.982
BBB+ (8)							
KIAMTR 3 04/25/23	3	600MM	USD	BBB+	Sr Unsecl	105.05	0.851
KIAMTR 3.25 04/21/26	3.25	300MM	USD	BBB+	Sr Unsecl	105.04	0.857
KIAMTR 3.5 10/25/27	3.5	300MM	USD	BBB+	Sr Unsecl	109.75	2.265
HYNMTR 3 06/20/22	3	400MM	USD	BBB+	Sr Unsecl	103.3	0.93
HYNMTR 1.8 10/15/25	1.8	750MM	USD	BBB+	Sr Unsecl	102.11	1.356
HYNMTR 2.75 09/27/26	2.75	500MM	USD	BBB+	Sr Unsecl	105.69	1.74
HYNMTR 3.5 11/02/26	3.5	700MM	USD	BBB+	Sr Unsecl	109.38	1.859
HYNMTR 2.375 10/15/27	2.375	650MM	USD	BBB+	Sr Unsecl	103.26	1.883

Source: Bloomberg

Figure 23.
RV for Geely Automobile



Source: Bloomberg

Figure 24.
RV for Zhejiang Geely's Outstanding Bonds



Source: Bloomberg

increase if Zhejiang Geely's capex appetite remains high. Zhejiang Geely Holding faces a negative outlook with considerable leverage pressure in 2020-2021, and ratings may lower if its debt-to-EBITDA ratio stays above 2x sustainably with low likelihood of meaningful improvement.

Issuance Analysis – RV

Zhejiang Geely Holding Group's Outstanding Bonds

Description	Issuer	Coupon	Issue Date	Curren	Issue Amt	Maturity Date	YTM	Price (261220)
GEELZ 1.93 01/21/21	Zhejiang Geely Holding Group	1.93	26 Apr 2020	CNY	2000MM	21 Jan 2021	3.732	99.86
GEELZ 4.55 08/17/21	Zhejiang Geely Holding Group	4.55	17 Aug 2018	CNY	2000MM	15 Aug 2021	3.819	100.41
GEELZ 3.88 11/9/21	Zhejiang Geely Holding Group	3.88	9 Nov 2015	CNY	2000MM	9 Nov 2021	4.423	99.49
GEELZ 4.875% 11/15/21	Geely Sweden Finance AB	4.875	15 Nov 2018	USD	250MM	15 Nov 2021	3.083	101.53
GEELZ 4.1 04/26/22	Zhejiang Geely Holding Group	4.1	26 Apr 2019	CNY	3500MM	26 Apr 2022	3.996	100.11
GEELZ 3.86 08/15/22	Zhejiang Geely Holding Group	3.86	15 Aug 2019	CNY	2000MM	15 Aug 2022	4.126	99.5
GEELZ 3.85 11/9/23	Zhejiang Geely Holding Group	3.85	9 Nov 2020	CNY	2000MM	9 Nov 2023	4.359	98.64
GEELY 3.625 01/25/23	Geely Automobile Holdings Ltd	3.625	25 Jan 2018	USD	300MM	25 Jan 2023	2.222	102.82
GEELZ 0 06/19/24	Geely Sweden Financials Holding	0	19 Jun 2019	CNY	3000MM	19 Jun 2024	-5.08	119.83
GEELZ 3.78 01/10/25	Zhejiang Geely Holding Group	3.78	10 Jan 2020	CNY	2000MM	10 Jan 2025		
GEELZ 3.92 03/09/25	Zhejiang Geely Holding Group	3.92	9 Mar 2020	CNY	2000MM	9 Mar 2025	4.87	96.41
GEELZ 3 03/05/25	Geely Finance Hong Kong Ltd	3	5 Mar 2020	USD	400MM	5 Mar 2025	2.862	100.55
GEELZ 4.2 PERP	Zhejiang Geely Holding Group	4.2	12 Jun 2020	CNY	1500MM			
GEELY 4 PERP	Geely Automobile Holdings Ltd	4	9 Dec 2019	USD	500MM		3.469	101.9

Overweight Geely Automobile Holdings 3.625% 01/25/23

GEELY 3.625% 01/25/23 is a Senior Unsecured bond issued in USD, rated BBB-. The fixed coupon bond has an issue price of \$102.97 and YTM of 2.152.

RV: GEELY 3.625% 01/25/23 vs NSANY 3.043% 09/15/23

NSANY 3.043% 09/15/23 was identified as a suitable comparable issued in USD due to similar coupon, maturity, rating and issuing industry. GEELY 3.625% 01/25/23 has a larger yield with a 82.3 bp spread over NSANY 3.043% 09/15/23. While both are rated BBB-, GEELY 3.625% 01/25/23 is yielding above the curve and priced at \$102.97, \$1.67 cheaper than NSANY 3.043% 09/15/23 as of 27th Dec 2020. The differences in risks could be attributed to Nissan having more diversified geographical operations across Japan, North America, Europe and Asia. However, we believe GEELY 3.625% 01/25/23 is relatively less risky with the after-effects of COVID-19, as the Chinese auto market leads global auto sales, with the potential to resume moderate long-term growth. By the end of 2022 before its maturity, the market is projected to be the only region to recover to 2019 volume. On the other hand, auto sales in Europe and North America are recovering but not expected to fully recover in the near term, while Japan is still recording decreases in auto sales. Hence, Geely's market concentration could be an advantage for its 3.625% coupon bond that is due in the near term. In addition, Nissan reported a net loss of \$6.2 billion net loss for FY 2020 while it seeks further credit lines to finance its liquidity requirements. Hence, in contrast, Geely's strong liquidity position and positive forecasted net profit for FY2020 are encouraging signs that it is able to service its debt amidst a muted automobile outlook globally.

RV: GEELY 3.625% 01/25/23 vs GEELZ 3% 03/05/25

Geely Finance Hong Kong Ltd is a subsidiary wholly owned by the parent company Zhejiang Geely Holding Group that provides investment management services and engages in bond issuing for its group company. It was newly established in 2019 and information about its operations and financial position is limited. As it is guaranteed by its parent company, we believe it is reasonable to regard it much like a bond issued by its parent. GEELZ 3% 03/05/25 trades at a higher premium of 64 bps spread over GEELY 3.625% 01/25/23, at a slightly lower price with a difference of \$2.273 between the two. Both are yielding below the curve as the remaining outstanding Zhejiang Geely Holding Group's bonds are riskier due to the higher leverage position of the parent company. Looking at the yield history, the spread of the bonds is wide at an average of 69.9bps with a low of 46.36 bps in the past 3 months. We think the higher coupon and shorter remaining duration for GEELY 3.625% 01/25/23 has been priced in and maintain an overweight position given the smaller risks compared to its parent's company bonds.

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Appendix:

Pro Forma Financial Statements

Income Statement

<i>In thousands RMB</i>	2017A	2018A	2019A	2020E	2021E	2022E
Revenue	92,760,718	106,595,133	97,401,248	93,018,192	103,092,629	110,026,403
Cost of Goods Sold	(74,779,337)	(85,081,727)	(80,484,620)	(75,641,140)	(83,833,536)	(89,471,988)
Gross Profit	17,981,381	21,513,406	16,916,628	17,377,052	19,259,093	20,554,416
Salaries, wages and other benefits	(4,241,354)	(5,679,709)	(5,638,075)	(5,384,362)	(5,967,521)	(6,368,883)
Depreciation & amortisation	(1,663,409)	(2,413,161)	(3,733,212)	(3,666,989)	(4,234,882)	(4,810,355)
Research & development	(331,241)	(548,653)	(850,468)	(557,610)	(900,163)	(960,706)
Other operating expenses	(770,246)	326,496	761,641	-	-	-
Other Income	1,229,147	1,236,985	1,224,666	1,386,262	1,445,233	1,580,363
Finance income, net	(35,233)	78,992	108,021	276,491	408,662	468,007
Share of profits of associates	39,211	(59,949)	38,122	36,407	38,227	40,138
Share of profits of joint ventures	3,143	504,566	625,878	597,713	741,421	919,679
Gain on disposal of subsidiaries	562,562	-	183,067	-	-	-
Profit Before Tax (PBT)	12,773,961	14,958,973	9,636,268	10,064,964	10,790,069	11,422,660
Tax	(2,038,572)	(2,284,575)	(1,374,910)	(1,661,746)	(1,781,462)	(1,885,904)
Net income	10,735,389	12,674,398	8,261,358	8,403,219	9,008,608	9,536,756
Foreign exchange differences	14,680	92,418	50,275	18,351	19,673	20,826
Total comprehensive income	10,750,069	12,766,816	8,311,633	8,421,570	9,028,280	9,557,583

Income Statement – Assumptions

<i>Assumptions</i>	2017A	2018A	2019A	2020E	2021E	2022E
Revenue Breakdown						
Total Units of Vehicles Sold	1,247,116	1,500,838	1,361,560	1,300,290	1,404,313	1,460,486
Yoy % growth	62.82%	20.35%	-9.28%	-4.50%	8.00%	4.00%
Revenue per Unit	74.38	71.02	71.54	71.54	73.41	75.34
Yoy % growth	6.05%	-4.51%	0.72%	0.00%	2.62%	2.62%
Total Revenue	92,760,718	106,595,133	97,401,248	93,018,192	103,092,629	110,026,403
Expenses						
COGS	(74,779,337)	(85,081,727)	(80,484,620)	(75,641,140)	(83,833,536)	(89,471,988)
% of revenue	80.62%	79.82%	82.63%	81.32%	81.32%	81.32%
Salaries, wages and other benefits	(4,241,354)	(5,679,709)	(5,638,075)	(5,384,362)	(5,967,521)	(6,368,883)
% of revenue	4.57%	5.33%	5.79%	5.79%	5.79%	5.79%
D&A	(1,663,409)	(2,413,161)	(3,733,212)	(3,720,728)	(4,639,168)	(5,501,320)
% of revenue	1.79%	2.26%	3.83%	4.00%	4.50%	5.00%
R&D	(331,241)	(548,653)	(850,468)	(557,610)	(900,163)	(960,706)
% of revenue	0.36%	0.52%	0.87%	0.60%	0.87%	0.87%
Tax	(2,038,572)	(2,284,575)	(1,374,910)	(1,661,746)	(1,781,462)	(1,885,904)
% of PBT	15.96%	15.27%	14.27%	16.51%	16.51%	16.51%
Other Income						
Rental income	25,215	32,715	22,364	17,891	23,213	30,117
Yoy growth %	10.37%	29.74%	-31.64%	-20.00%	29.74%	29.74%
Government grants and subsidies	905,300	992,859	845,449	929,994	883,494	888,692
Yoy growth %	12.84%	9.67%	-14.85%	10.00%	-5.00%	0.59%
Others	298,632	211,411	356,853	438,377	538,526	661,553
Yoy growth %	-2.09%	-29.21%	68.80%	22.85%	22.85%	22.85%
Total other income	1,229,147	1,236,985	1,224,666	1,386,262	1,445,233	1,580,363
Financial income						
Bank and other interest income	127,057	192,922	235,601	393,828	524,535	583,880
% of Bank balances and cash	0.85%	1.44%	1.49%	1.21%	1.21%	1.21%
Effective interest expense on bond payable	(8,908)	(8,624)	(3,574)	(3,420)	(3,420)	(3,420)
% of Bank borrowings and lease liabilities	0.69%	0.63%	0.17%	0.17%	0.17%	0.17%
Coupon expense on bond payable	(96,714)	(67,769)	(75,271)	(69,860)	(69,860)	(69,860)
Others	(52,015)	0	(3,557)	0	0	0
Interest on bank borrowings	(4,653)	(37,537)	(45,178)	(39,036)	(39,036)	(39,036)
% of Bank borrowings	0.36%	2.73%	2.16%	1.87%	1.87%	1.87%
Interest on lease liabilities	0	0	(3,557)	(5,022)	(3,557)	(3,557)
% of Lease liabilities	0.00%	0.00%	13.49%	13.49%	13.49%	13.49%
Finance income, net	(35,233)	78,992	108,021	276,491	408,662	468,007
Income from associates and joint ventures						
Share of profits of associates	39,211	(59,949)	38,122	36,407	38,227	40,138
Yoy growth %	26.43%	-252.89%	-163.59%	-4.50%	5.00%	5.00%
Share of profits of joint ventures	3,143	504,566	625,878	597,713	741,421	919,679
Yoy growth %	-107.92%	15953.64%	24.04%	-4.50%	24.04%	24.04%
Other comprehensive income						
Exchange differences on translation of financial statements of foreign operations	14,680	92,418	50,275	18,351	19,673	20,826
% of Net Income	0.14%	0.73%	0.61%	0.22%	0.22%	0.22%

Balance Sheet

<i>In thousands RMB</i>	2017A	2018A	2019A	2020E	2021E	2022E
Current Assets						
Bank balances and cash	13,414,638	15,737,196	19,281,216	32,589,294	43,405,248	48,316,085
Pledged bank deposits	36,043	19,392	40,393	40,393	40,393	40,393
Financial assets at fair value through profit or loss	-	-	-	-	-	-
Accounts Receivable	33,482,380	22,864,974	25,871,628	24,149,747	24,871,550	27,028,599
Inventories	6,027,312	4,097,380	4,820,776	5,865,186	5,990,995	6,510,579
Land lease prepayments	47,810	66,538	-	-	-	-
Total Current Assets	53,008,183	42,785,480	50,014,013	62,644,619	74,308,185	81,895,655
Non-Current Assets						
Property, plant and equipment	14,052,943	23,422,617	27,070,318	29,117,987	31,598,512	34,391,706
Intangible assets	10,551,773	14,993,188	17,597,628	19,557,802	24,234,973	28,790,243
Land lease prepayments	2,123,909	3,268,035	3,230,845	3,524,826	4,072,721	4,453,259
Goodwill	16,079	26,414	42,806	42,806	42,806	42,806
Interests in associates	369,360	404,669	462,387	462,387	462,387	462,387
Interests in Joint Ventures	4,435,530	5,917,618	8,375,076	8,375,076	8,375,076	8,375,076
Trade and other receivable	21,650	-	268,899	-	-	-
Deferred tax assets	401,325	642,959	865,606	865,606	865,606	865,606
Total Non-Current Assets	31,972,569	48,675,500	57,913,565	61,946,490	69,652,081	77,381,083
Total Assets	84,980,752	91,460,980	107,927,578	124,591,109	143,960,267	159,276,738
Current Liabilities						
Trade and other payables	47,532,529	41,438,036	47,873,315	57,474,131	66,407,836	72,612,707
Bank borrowings	1,296,460	1,375,280	-	-	-	-
Lease liabilities	-	-	37,223	-	-	-
Income tax payable	1,072,958	947,085	615,894	679,177	728,107	770,794
Total current liabilities	49,901,947	43,760,401	48,526,432	58,153,309	67,135,943	73,383,501
Non-Current Liabilities						
Bonds payables	-	2,047,822	2,060,085	2,060,085	2,060,085	2,060,085
Lease liabilities	-	-	26,366	26,366	26,366	26,366
Bank borrowings	-	-	2,089,110	2,089,110	2,089,110	-
Deferred tax liabilities	267,971	278,039	301,119	319,731	342,765	362,861
Total Non-Current Liabilities	267,971	2,325,861	4,476,680	4,495,292	4,518,326	2,449,312
Total Liabilities	50,169,918	46,086,262	53,003,112	62,648,601	71,654,269	75,832,813
Shareholder's Equity						
Share capital	164,286	164,470	167,733	167,733	167,733	167,733
Perpetual capital securities	-	-	3,413,102	3,413,102	3,413,102	3,413,102
Reserves	34,302,761	44,779,507	50,854,791	57,114,718	63,825,625	70,929,973
Non-controlling interests	343,787	430,741	488,840	488,840	488,840	488,840
Total Equity	34,810,834	45,374,718	54,924,466	61,184,393	67,895,300	74,999,648
Total Liabilities and Equity	84,980,752	91,460,980	107,927,578	123,832,993	139,549,569	150,832,461

Balance Sheet – Assumptions

<i>Assumptions</i>	2017A	2018A	2019A	2020E	2021E	2022E
<i>In thousand RMB</i>						
Sales	92,760,718	106,595,133	97,401,248	93,018,192	103,092,629	110,026,403
Cost of Sales	(74,779,337)	(85,081,727)	(80,484,620)	(75,641,140)	(83,833,536)	(89,471,988)
OPEX	(7,006,250)	(8,315,027)	(9,460,114)	(9,608,961)	(11,102,566)	(12,139,943)
Working Capital						
Accounts Receivable	33,482,380	22,864,974	25,871,628	24,149,747	24,871,550	27,028,599
Inventory	6,027,312	4,097,380	4,820,776	5,865,186	5,990,995	6,510,579
Days' Sales Outstanding	166.86	83.73	92.58	92.58	92.58	92.58
Days' Sales in Inventory	37.08	18.71	21.26	27.42	27.42	27.42
Non-Current Assets						
PPE total	14,052,943	23,422,617	27,070,318	29,117,987	31,598,512	34,391,706
Purchase of property, plant and equipment	(3,451,567)	(2,312,931)	(2,872,645)			
PPE CAPEX	3,562,519	3,246,074	4,031,031	3,767,998	4,176,095	4,456,970
<i>Intangibles CAPEX</i>	<i>3,949,951</i>	<i>5,031,452</i>	<i>4,606,090</i>	<i>6,511,273</i>	<i>7,216,484</i>	<i>7,701,848</i>
IS: Depreciation and amortisation	1,938,008	2,413,161	3,733,212	(3,666,989)	(4,234,882)	(4,810,355)
Depreciation	(742,679)	(742,679)	(1,438,450)	(1,720,329)	(1,695,570)	(1,663,776)
Amortization	(1,147,257)	(1,377,705)	(2,216,685)	(1,946,660)	(2,539,312)	(3,146,579)
D&A	(1,889,936)	(2,120,384)	(3,655,135)	(3,666,989)	(4,234,882)	(4,810,355)
Construction in Progress						
Beginning Balance	2,319,892	2,254,272	5,874,583	2,169,576	5,268,381	8,702,804
(+) addition	3,179,771	2,791,592	3,502,399	3,098,805	3,434,424	3,665,415
(+/-) others	(3,245,391)	828,719	(7,207,406)	-	-	-
Ending Balance	2,254,272	5,874,583	2,169,576	5,268,381	8,702,804	12,368,220
Construction in Progress Capex	3,179,771	2,791,592	3,502,399	3,098,805	3,434,424	3,665,415
% sales	3%	3%	4%	3%	3%	3%

Balance Sheet – Assumptions (continued)

Building						
Beginning Balance	3,974,416	4,875,967	7,094,760	8,822,804	8,680,111	8,564,894
(+) addition	68,295	62,495	138,014	131,803	146,078	155,903
(-) depreciation	(142,844)	(142,844)	(232,964)	(274,497)	(261,295)	(251,177)
(+/-) others	976,100	2,299,142	1,822,994	-	-	-
Ending Balance	4,875,967	7,094,760	8,822,804	8,680,111	8,564,894	8,469,620
Building Capex	68,295	62,495	138,014	131,803	146,078	155,903
% sales	0.07%	0.06%	0.14%	0.14%	0.14%	0.14%
Building Depreciation	(142,844)	(142,844)	(232,964)	(274,497)	(261,295)	(251,177)
% Beginning balance	3%	2%	3%	3%	3%	3%
Plant and machinery						
Beginning Balance	3,945,881	6,364,817	9,564,421	14,724,861	13,654,044	12,678,187
(+) addition	115,588	48,341	1,384	94,400	104,625	111,661
(-) depreciation	(489,194)	(489,194)	(961,038)	(1,165,218)	(1,080,481)	(1,003,259)
(+/-) others	2,792,542	3,640,457	6,120,094	-	-	-
Ending Balance	6,364,817	9,564,421	14,724,861	13,654,044	12,678,187	11,786,590
Plant Capex	115,588	48,341	1,384	94,400	104,625	111,661
% sales	0.12%	0.05%	0.00%	0.10%	0.10%	0.10%
Plant Depreciation	(489,194)	(489,194)	(961,038)	(1,165,218)	(1,080,481)	(1,003,259)
% Beginning balance	9%	6%	8%	8%	8%	8%
Leasehold improvements						
Beginning Balance	1,579	960	9,513	7,331	190,086	315,590
(+) addition	368	9,616	194,617	185,859	205,989	219,843
(-) depreciation	(985)	(985)	(3,566)	(3,104)	(80,485)	(133,625)
(+/-) others	(2)	(78)	(193,233)	-	-	-
Ending Balance	960	9,513	7,331	190,086	315,590	401,808
Leasehold improvements Capex	368	9,616	194,617	185,859	205,989	219,843
% sales	0.00%	0.01%	0.20%	0.20%	0.20%	0.20%
Leasehold improvements Depreciation	(985)	(985)	(3,566)	(3,104)	(80,485)	(133,625)
% Beginning balance	78%	19%	42%	42%	42%	42%
Furniture and fixtures, office equipment and motor vehicles						
Beginning Balance	408,545	556,927	879,340	1,345,746	1,325,366	1,337,037
(+) addition	198,497	334,030	194,617	257,130	284,979	304,146
(-) depreciation	(109,656)	(109,656)	(240,882)	(277,511)	(273,308)	(275,715)
(+/-) others	59,541	98,039	512,671	-	-	-
Ending Balance	556,927	879,340	1,345,746	1,325,366	1,337,037	1,365,468
Other Capex	198,497	334,030	194,617	257,130	284,979	304,146
% sales	0.21%	0.31%	0.20%	0.28%	0.28%	0.28%
Other Depreciation	(109,656)	(109,656)	(240,882)	(277,511)	(273,308)	(275,715)
% Beginning balance	23%	15%	22%	21%	21%	21%
Intangibles						
Beginning Balance	6,461,809	10,551,773	14,993,188	14,993,188	19,557,802	24,234,973
(+) addition	3,949,951	5,031,452	4,606,090	6,511,273	7,216,484	7,701,848
(-) amortisation	(1,147,257)	(1,377,705)	(2,216,685)	(1,946,660)	(2,539,312)	(3,146,579)
(+/-) others	1,287,270	787,668	(2,389,405)	-	-	-
Ending Balance	10,551,773	14,993,188	14,993,188	19,557,802	24,234,973	28,790,243
Intangibles Capex	3,949,951	5,031,452	4,606,090	6,511,273	7,216,484	7,701,848
% sales	4%	5%	5%	7%	7%	7%
Intangibles Amortisation	-1,147,257	-1,377,705	-2,216,685	-1,946,660	-2,539,312	-3,146,579
% Beginning balance	13%	11%	15%	13%	13%	13%
Land Lease Prepayments	2,123,909	3,268,035	3,230,845	3,524,826	4,072,721	4,453,259
% OPEX	30.31%	39.30%	34.15%	36.68%	36.68%	36.68%
Current Liabilities						
Trade and other payables	47,532,529	41,438,036	47,873,315	57,474,131	66,407,836	72,612,707
% OPEX	678%	498%	506%	598%	598%	598%
Income tax payable	1,072,958	947,085	615,894	679,177	728,107	770,794
% taxes	53%	41%	45%	41%	41%	41%
Non-current Liabilities						
Deferred tax liabilities	267,971	278,039	301,119	319,731	342,765	362,861
% taxes	13%	12%	22%	19%	19%	19%

Cash Flow Statement

<i>In thousands RMB</i>	2017A	2018A	2019A	2020E	2021E	2022E
Cash flows from operating activities						
Profit before taxation	12,773,961	14,958,973	9,636,268	10,064,964	10,790,069	11,422,660
Adjustments for:						
Bad debts written off	67,371	2,219	5,542			
Depreciation and amortisation	1,938,008	2,413,161	3,733,212	3,666,989	4,234,882	4,810,355
Equity settled share-based payments	27,724	14,594	5,459			
Finance costs	162,290	113,930	127,580	117,338	115,873	115,873
Gain on disposal of an associate	(1,192)		(636)			
Gain on disposal of subsidiaries	(562,562)		(183,067)			
Gain on disposal of interests in joint ventures						
Gain on disposal of financial assets at fair value through profit or loss						
Bargain purchase gain arising from acquisition of a subsidiary	(3,402)					
Impairment loss on interest in an associate						
Impairment loss on trade and other receivables		9,659	38,242			
Loss on disposal of intangible assets						
Interest income	(127,057)	(192,922)	(235,601)	1,386,262	1,445,233	1,580,363
Net foreign exchange (gain)/loss	(4,105)	225,520	(8,729)			
Write-down of inventories						
Net loss on disposal of property, plant and equipment	34,074	64,482	55,929			
Share of results of associates	(39,211)	59,949	(38,122)	36,407	38,227	40,138
Share of results of joint ventures	(3,143)	(504,566)	(625,878)	597,713	741,421	919,679
Operating profit before working capital changes	14,262,756	17,164,999	12,510,199	15,869,673	17,365,704	18,889,068
Inventories	(2,870,040)	2,175,291	(699,388)	(1,044,410)	(125,809)	(519,584)
Trade and other receivables	(4,238,240)	11,664,380	(3,769,692)	1,990,780	(721,803)	(2,157,049)
Trade and other payables	6,597,957	(14,458,627)	6,446,007	9,600,816	8,933,705	6,204,871
Cash generated from operations	13,752,433	16,546,043	14,487,126	26,416,860	25,451,797	22,417,306
Income taxes paid	(1,758,931)	(2,620,921)	(1,949,422)	(1,579,850)	(1,709,498)	(1,823,122)
Net cash generated from operating activities	11,993,502	13,925,122	12,537,704	24,837,010	23,742,299	20,594,185
Cash flows from investing activities						
Purchase of property, plant and equipment	(3,451,567)	(2,312,931)	(2,872,645)	(3,767,998)	(4,176,095)	(4,456,970)
Proceeds from disposal of property, plant and equipment	55,790	104,723	8,216			
Proceeds from disposal of available-for-sale financial assets	129					
Proceeds from disposal of land lease prepayments						
Additions of land lease prepayments	(240,128)	(178,985)	(95,980)	(293,981)	(547,894)	(380,538)
Additions of intangible assets	(3,949,951)	(5,031,452)	(4,606,090)	(6,511,273)	(7,216,484)	(7,701,848)
Additional capital injection in an associate		(95,258)	(20,493)			
Additional capital injection in joint ventures	(38,131)	(880,000)	(1,831,580)			
Investment in a joint venture	(3,750,000)	(97,522)				
Proceeds from disposal of intangible assets	6,439	4,644				
Change in pledged bank deposits	3,261	16,651	(21,001)			
Net cash outflows on acquisition of subsidiaries	(1,728,634)	(3,063,151)	(320,689)			
Net cash outflows on disposal of subsidiaries	1,040,728		(2,699)			
Settlement of payables for acquisition of subsidiaries in previous year			(1,265,277)			
Acquisition of available-for-sale financial assets						
Proceeds from disposal of financial assets at fair value through profit or loss		21,650				
Proceeds from disposal of interests in an associate	13,860		1,533			
Proceeds from disposal of interests in joint ventures						
Government grants received				929,994	883,494	888,692
Interest received	127,057	192,922	235,601	393,828	524,535	583,880
Net cash used in investing activities	(11,911,147)	(11,318,709)	(10,791,104)	(9,249,430)	(10,532,444)	(11,066,783)
Cash flows from financing activities						
Dividends paid	(960,054)	(2,160,828)	(2,805,760)	(2,143,292)	(2,297,700)	(2,432,408)
Dividends paid to non-controlling interests		(36,030)	(15,694)			
Capital contribution from non-controlling interests		1,030	1,555			
Proceeds from issuance of perpetual capital securities, net of transaction costs			3,413,102			
Proceeds from issuance of bonds, net of transaction costs		1,927,161				
Proceeds from issuance of shares upon exercise of share options	313,857	35,610	639,453			
Redemption of senior notes	(2,033,536)					
Proceeds from bank borrowings	1,296,460		2,060,760			
Repayments of bank borrowings	(174,375)		(1,373,120)			(2,089,110)
Payment of lease liabilities			(33,399)	(37,223)		
Interest paid	(126,950)	(73,298)	(123,537)	(117,338)	(115,873)	(115,873)
Net cash generated from/(used in) financing activities	(1,684,598)	(306,355)	1,763,360	(2,297,853)	(2,413,573)	(4,637,391)
Net increase in cash and cash equivalents	(1,602,243)	2,300,058	3,509,960	13,289,727	10,796,281	4,890,011
Cash and cash equivalents at the beginning of the year	15,045,493	13,414,638	15,737,196	19,281,216	32,589,294	43,405,248
Effect of foreign exchange rate changes	(28,612)	22,500	34,060	18,351	19,673	20,826
Cash and cash equivalents at the end of the year, represented by bank balances and cash	13,414,638	15,737,196	19,281,216	32,589,294	43,405,248	48,316,085

Cash Flow Statement - Assumption

Assumptions	2017A	2018A	2019A	2020E	2021E	2022E
Dividend payout ratio	0.09	0.17	0.34	0.255056087	0.255056087	0.255056087
Dividend paid	960,054	2,160,828	2,805,760	2,143,292	2,297,700	2,432,408