Geely Auto (175 HK)

2Q26: Earnings Beat On ASP and Margins; Raise Target Price To HK$29.00

Highlights

- 2Q26 adjusted net profit of Rmb5.12b (+61% yoy) beat consensus estimates by 4%, driven by ASP and margin expansion.
- Gross margin expanded 1.6ppt to 17.9% in 1H26, with overseas margins commanding a 10ppt premium over domestic.
- We raise our 2026-28 net profit forecasts by 5%/7%/9% to Rmb19.89b/Rmb27.265b/Rmb35.09b on higher ASP and margins.
- Maintain BUY and raise target price to HK$29.00 target (10x 2026F PE).

2Q26 Results

Year to 31 Dec (Rmbm)	2Q26	yoy %	qoq %	1H26	yoy %	2026F	yoy %
Sales volume ('000 units)	714	1.2	0.6	1,423	1.0	3,450	14.1
NP per vehicle (Rmb'000)	7.179	58.8	11.7	6.8	44.8	5.6	17.4
Revenue	89,824	15.8	7.2	173,600	14.7	403,867	17.0
Gross profit	16,490	24.2	12.5	31,154	25.7	72,696	26.8
Gross margin (%)	18.4	1.3	0.9	17.9	*1.6*	18.0	1.4
EBIT	5,207	33.7	11.6	9,874	(2.2)	20,903	18.2
EBIT margin (%)	5.8	0.8	0.2	5.7	*(1.0)*	5.2	0.1
Shared results of assoc.	247	(14.5)	1,271.3	265	(49.0)	100	(86.8)
Shared results of JVs	131	(69.0)	(63.8)	493	(17.6)	1,750	6.6
Net profit	4,925	36.2	18.2	9,091	(1.8)	18,896	12.1
Net profit – adj	5,123	60.7	12.3	9,684	46.2	19,291	33.9
Net margin (%)	5.5	0.8	0.5	5.2	*(0.9)*	4.7	(0.2)
Net margin – adj (%)	5.7	1.6	0.3	5.6	*1.2*	4.8	0.6

Source: Geely, UOB Kay Hian

Analysis

- **2Q26 results beat expectations on margins.** Geely Auto's (Geely) 2Q26 results beat expectations with reported net profit of Rmb4,925m (+36.2% yoy/+18.2% qoq) and adjusted net profit (excluding forex gain/(loss) and other exceptional items) of Rmb5,123m (+60.7% yoy/+12.3% qoq), vs our estimate of Rmb4,995m and consensus estimate of Rmb4,912m. This brings 1H26 reported net profit and adjusted net profit to Rmb9,091m (-1.8% yoy) and Rmb9,684m (+46.2% yoy) respectively. These represent 48%/50% of our full-year 2026 net profit and adjusted net profit estimates of Rmb9,091m/Rmb9,684m respectively. The earnings beat stemmed from ASPs and margins, given premiumisation and overseas sales.

Key Financials

Year to 31 Dec (Rmbm)	2024	2025	2026F	2027F	2028F
Net turnover	275,910	345,232	403,867	515,133	632,821
EBITDA	22,218	33,605	37,634	45,669	53,855
Operating profit	8,467	17,685	21,307	28,778	36,562
Net profit (rep./act.)	16,812	16,852	19,233	25,404	32,135
Net profit (adj.)	10,596	14,410	19,628	25,404	32,135
EPS (Fen)	104.9	139.2	182.0	235.6	298.0
PE (x)	15.5	11.7	8.9	6.9	5.4
P/B (x)	3.2	3.2	2.6	2.0	1.6
EV/EBITDA (x)	6.4	4.0	4.2	2.9	1.9
Dividend yield (%)	1.8	2.7	3.2	4.2	5.3
Net margin (%)	3.8	4.2	4.9	4.9	5.1
Net debt/(cash) to equity (%)	(37.0)	(45.7)	(15.1)	(33.1)	(48.3)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.	n.a.
ROE (%)	12.5	16.1	19.6	21.6	23.0
Consensus net profit	-	-	21,143	25,629	29,997
UOBKH/Consensus (x)	-	-	0.91	0.99	1.07

Source: Geely, Bloomberg, UOB Kay Hian

Analyst(s)

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BUY (Maintained)

Share Price	HK$18.67
Target Price	HK$29.00
Upside	55.3%
Previous	HK$27.00

Stock Data

Sector	Consumer Discretionary
Bloomberg ticker	175 HK
Shares issued (m)	10,785
Market cap (HK$m)	201,358
Market cap (US$m)	25,815
3-mth avg daily t'over (US$m)	119

Price Performance (%)

52-week high/low				HK$24.98/HK$15.13
1mth	3mth	6mth	1yr	YTD
1.2	(13.5)	14.7	(5.6)	4.3

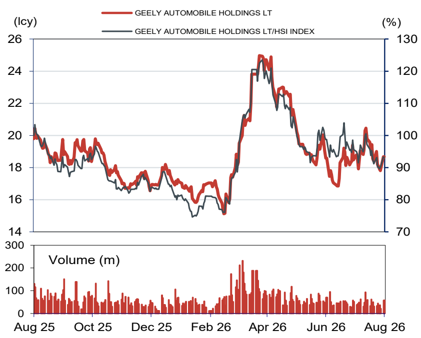
Major Shareholders (%)

Li Shu Fu	63.93

Balance Sheet Metrics

FY26 NAV/Share (HK$)	7.26
FY26 Net Cash/Share (HK$)	1.73

Price Chart



Source: Bloomberg

Company Description

Based in Hangzhou of China, Geely Auto (Geely) manufactures and sells vehicles under the brands of Geely, Galaxy, Zeekr and Lynk & Co.

- **Revenue growth outpaced sales volume on higher ASP.** 2Q26 revenue grew 15.8% yoy and 7.2% qoq to Rmb89.82b, outpacing the 1.2% yoy sales volume growth. This takes 1H26 revenue to Rmb173.6b (+14.7% yoy), representing 43% of our full-year estimate of Rmb403.87b (+17.0% yoy). By segment, sales of automobiles and related service remained the primary growth driver, rising 17.1% yoy to Rmb158.79b. That implies an ASP of Rmb111,600 (+16.0% yoy), vs our full-year assumption of Rmb105,900 (+3% yoy). The ASP spike in 1H26 was driven by higher share of premium products and overseas sales in revenue mix. Zeekr's sales volume surged 96.6% yoy to 178,400 units in 1H26 (12.5% of total sales volume, up 6.1ppt yoy). Overseas sales volume spiked 159.3% yoy to 474,200 units (33.3% of total sales volume, up 20.0ppt yoy).
- **Maintain 2026-28 sales volume estimates at 3.45m/4.3m/5.15m units, including 1.2m/2.0m/2.8m units of overseas sales.** Looking ahead, Geely's sales growth will be driven by overseas expansion and premiumisation. Geely's ytd export has already exceeded its initial target of 640,000 units, and the company lifted its 2026 export target to 750,000 units. However, based on the ongoing momentum, we expect full-year 2026 export to reach 1.2m units in 2026. Overseas outlets are aimed at doubling to about 2,200 by end-26. The Ford JV in Spain (2027) will support mid-term exports. Premium brands (Zeekr, Lynk & Co) and new models (Zeekr 9X/8X, Galaxy 'Battleship 700') will enhance mix.
- **We raise our 2026-28 ASP assumptions to Rmb112,000/Rmb120,000/ Rmb128,000 respectively,** based on the upbeat 1H26 ASP and sales mix optimisation.
- **We cut other revenue forecasts to Rmb32.21b/Rmb39.06b/Rmb47.18b respectively.** These include sales of auto parts and components, collaborative manufacturing income and R&D services and licensing income. These incomes dropped 6.1% yoy to Rmb14.82b in 1H26.
- **Margin improvement was better than expected.** Gross margin rose to 18.4% (+1.3ppt yoy/+0.9ppt qoq) in 2Q26 and 17.9% in 1H26, vs our full-year assumption of 18.0%. SG&A/revenue ratio dipped 0.2ppt yoy to 7.8% in 2Q26, while R&D/revenue ratio remained flat yoy at 5.2%. EBIT margin soared to 5.8% (+0.8ppt yoy/+0.2ppt qoq) in 2Q26 and 5.7% (-1.0ppt yoy) in 1H26, vs our full-year assumption of 5.2%. Net profit per vehicle surged to Rmb7,180 (+58.8% yoy/+11.7% qoq) in 2Q26 and Rmb6,810 (+44.8% yoy) in 1H26, vs our full-year assumption of Rmb5,592. The margin improvement was driven by premiumisation and higher mix of overseas sales. Overseas sales command a gross margin 10ppt higher than domestic, with net profit of Rmb12,000-15,000 per vehicle vs Rmb2,000-6,000 domestically.
- **Maintain 2026-28 gross margin assumptions at 18.0%/18.2%/18.4% respectively.** The margin improvement will be driven by the premiumisation and overseas sales.
- **Cut 2026-28 SG&A/revenue ratio to 7.8%/7.7%/7.7%, and raise R&D/revenue ratio to 5.3%/5.4%/5.4%,** from 8.0%/7.9%/7.9% and 5.2%/5.2%/5.2% respectively, based on the ratios in 1H26.

Earnings Revision/Risk

- **We raise our 2026-28 net profit forecasts by 5%/7%/9% to Rmb19.89b/Rmb27.265b/Rmb35.09b respectively**.

Valuation/Recommendation

- **Maintain BUY and raise target price from HK$27.00 to HK$29.00**, pegged to the unchanged 10x 2026F PE (on par with historic mean) and higher 2027F EPS.

Share Price Catalyst

- Strong monthly sales, debuts of blockbuster new models, 3Q26 results beat.

Profit & Loss

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Net turnover	345,232	403,867	515,133	632,821
EBITDA	33,605	37,634	45,669	53,855
Deprec. & amort.	(15,920)	(16,327)	(16,892)	(17,293)
EBIT	-	-	-	-
Total other non-operating income	17,694	21,307	28,778	36,562
Associate contributions	2,399	1,850	1,850	1,850
Net interest income/(expense)	137	65	47	389
Pre-tax profit	20,230	23,222	30,674	38,801
Tax	(3,601)	(4,180)	(5,521)	(6,984)
Minorities	(224)	(190)	(252)	(318)
Net profit	16,852	19,233	25,404	32,135
Net profit (adj.)	14,410	19,628	25,404	32,135

Balance Sheet

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Fixed assets	34,370	32,899	31,650	30,589
Other LT assets	96,627	102,077	106,889	111,272
Cash/ST investment	65,319	36,723	62,691	93,938
Other current assets	94,094	129,199	163,760	200,277
Total assets	290,410	300,898	364,991	436,075
ST debt	13,097	10,496	10,496	10,496
Other current liabilities	166,362	164,342	208,828	255,679
LT debt	14,476	14,476	14,476	14,476
Other LT liabilities	2,860	2,860	2,860	2,860
Shareholders' equity	92,398	107,699	127,556	152,108
Minority interest	1,217	1,026	775	457
Total liabilities & equity	290,410	300,898	364,991	436,075

Cash Flow

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Operating	47,274	(3,328)	50,269	57,241
Pre-tax profit	20,230	23,222	30,674	38,801
Tax	(4,040)	(4,637)	(6,125)	(7,748)
Deprec. & amort.	5,629	5,471	5,249	5,061
Associates	(2,399)	(1,850)	(1,850)	(1,850)
Working capital changes	18,278	(37,125)	9,925	10,334
Non-cash items	9,576	11,592	12,396	12,642
Other operating cashflows	-	-	-	-
Investing	(23,370)	(17,235)	(17,254)	(16,825)
Capex (growth)	(17,918)	(18,000)	(18,000)	(18,000)
Investments	(1,236)	-	-	-
Others	(4,217)	765	746	1,175
Financing	(1,839)	(8,034)	(7,046)	(9,169)
Dividend payments	(3,119)	(4,732)	(6,347)	(8,383)
Proceeds from borrowings	-	3,000	3,000	3,000
Loan repayment	(7,433)	(3,000)	(3,000)	(3,000)
Others/interest paid	8,713	(3,301)	(699)	(785)
Net cash inflow (outflow)	22,065	(28,597)	25,969	31,247
Beginning cash & cash equivalent	43,058	65,319	36,723	62,691
Changes due to forex impact	197	-	-	-
Ending cash & cash equivalent	65,319	36,723	62,691	93,938

Key Metric

Year to 31 Dec (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	0.3	0.2	0.2	0.1
Pre-tax margin	5.9	5.7	6.0	6.1
Net margin	4.2	4.9	4.9	5.1
ROA	5.1	6.6	7.6	8.0
ROE	16.1	19.6	21.6	23.0
Growth				
Turnover	25.1	17.0	27.6	22.8
EBITDA	51.3	12.0	21.4	17.9
Pre-tax profit	11.6	14.8	32.1	26.5
Net profit	0.2	14.1	32.1	26.5
Net profit (adj.)	36.0	36.2	29.4	26.5
EPS	35.4	27.7	29.4	26.5
Leverage				
Debt to total capital	8.0	6.8	5.6	4.7
Debt to equity	25.0	19.0	16.1	13.5
Net debt/(cash) to equity	(45.7)	(15.1)	(33.1)	(48.3)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.