

Apollo Future Mobility Group Limited

HKSE: 0860

Maintaining Rating & Raising Target

BUY, HK\$1.50

December 9, 2020

MARKET DATA

Share Price:	HK\$	0.58
Market Cap:	HK\$	4,777.34 M
52wk Range:	HK\$	0.35 - 0.72
Ave. Volume:		28,000,000
Basic S/O:		8,236.79 M
Fully Diluted S/O:		9,956.85 M
Float:		4,878.59 M
Board Lot:		4,000
Institutional (SDI) %:		28%
Insider %:		22%

FINANCIAL DATA (mrq)

Cash:	HKD	123.89 M
ST Debt:	HKD	108.27 M
LT Debt:	HKD	19.64 M
Book Value:	HKD	3,808.98 M
EBITDA (ttm):	HKD	(823.40) M
CFFO (ttm):	HKD	(178.91) M

Auditor: Ernst & Young

HKD	2019A	2020e	2021e	2022e
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Revenue (in Millions)

	2019A	2020e	2021e	2022e
Mar	281.13	256.91A	445.45	657.90
Sep	255.23	209.38	564.02	761.71
REV	536.36	466.29	1,009.46	1,419.60
<i>P/S</i>	<i>8.91</i>	<i>10.25</i>	<i>4.73</i>	<i>3.36</i>

Diluted EPS

	2019A	2020e	2021e	2022e
Mar	(2.29)	(2.83)A	0.69	3.13
Sep	(8.27)	(0.57)	1.97	3.91
EPS	(9.66)	(3.40)	2.66	7.06
<i>P/E</i>	<i>N/A</i>	<i>N/A</i>	<i>21.80</i>	<i>8.22</i>

Dividend

	2019A	2020e	2021e	2022e
Mar	0.000	0.000	0.000	0.000
Sep	0.000	0.000	0.000	0.000
DIV	0.000	0.000	0.000	0.000
<i>Yield</i>	<i>0.00%</i>	<i>0.00%</i>	<i>0.00%</i>	<i>0.00%</i>

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HK\$491 Million Raised After Strong CIIE Showing

HK\$491 Million Financing. On Monday, the Company announced it sold 1,066,596,000 new shares to strategic investors from Europe and the Middle East at a price of HK\$0.46 per share. The deal was priced at a discount to market thanks to the recent run up in the stock price after CIIE. This deal has presumably been in the works for some time, in which case the deal price was around market pricing pre-CIIE. AMFG anticipates receiving HK\$491,000,000 in gross proceeds from the financing (HK\$486,000,000 net), which it will use for acquisitions, investments, R&D and general uses. We expect a portion of this cash will be used to complete the Ideenion acquisition.

Success At CIIE. AMFG was an exhibitor, along with other leading global automotive brands, at the China International Import Expo that ran from November 5-10 in Shanghai. The Company showcased a variety of its mobility solutions, including the Apollo IE, its prototype Urban Delivery Vehicle (UDV), GLM's Electric Mobility Scooter, its ROHM co-developed 800V SiC Dual Inverter, and its self-developed Autonomous Development Chassis. The Expo marked the debut for the UDV, which was designed for last mile transport and can be shipped to customers in knocked-down form to be assembled in local micro factories. Production of the UDV is expected in 2022. GLM's Scooter is designed to transition mobile seniors from automobiles to a more manageable mode of transport, with the aim of reaching commercialization by the end of 2022. The Autonomous Development Chassis was designed to be a customizable platform for autonomous driving software, and includes electric power steering, an e-braking system, a high powered EV motor, and four LIDAR sensors for mapping needs. The new inverter technology was discussed in a previous report. The Company drew a great deal of attention at the event, both from prospective customers and partners, as well as local media, which should further help AMFG build brand awareness among potential customers, including local auto brands needing technology solutions.

Model Update. We included the new shares and cash from the acquisition, and pushed the completion of the Ideenion acquisition into early 2021. We also made additional adjustments due to the impact of COVID across Asia and Europe.

Maintaining Rating & Raising Target. AMFG continues to make solid progress on multiple fronts as it works to be at the center of not only the shift to electric, but also the shift to outsourced automotive technology and vehicle development. We believe the fundraising provides the capital to move a number of pieces forward and expect to see additional developments in the near future as business returns to normal globally. With continued positive news, we are reiterating our Buy rating on Apollo Future Mobility Group and raising our target price from HK\$0.75 to HK\$1.50. Our target price is based on a P/E multiple of 25 times our fiscal 2022 Diluted EPS estimate of HK\$7.06 cents, discounted one year at 20%. We believe the increased P/E multiple is justified given the increased multiples and valuations received by other companies in the EV space, despite those being singularly focused on a product area rather than diversified as AMFG is.

COMPANY UPDATE

HK\$491 Million Financing. On Monday, the Company announced it sold 1,066,596,000 new shares to strategic investors from Europe and the Middle East at a price of HK\$0.46 per share. The deal was priced at a discount to market thanks to the recent run up in the stock price after CIIE. This deal has presumably been in the works for some time, in which case the deal price was around market pricing pre-CIIE. AMFG anticipates receiving HK\$491,000,000 in gross proceeds from the financing (HK\$486,000,000 net), which it will use for acquisitions, investments, R&D and general uses. We expect a portion of this cash will be used to complete the Ideenion acquisition.

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Urban Delivery Vehicle Source: AMFG



GLM Scooter Source: AMFG

Ideenion Update. The Long Stop Date was extended to December 31, 2020, with the circular extended to December 15. The cash and consideration share payments were also pushed back one year, with the first now starting on the year ending June 30, 2021. All consideration amounts and profit targets were kept the same. It seems likely the Circular and completion dates will be pushed back again, but with the financing proceeds we expect the deal will be finalized in the near future.

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RISKS

Shift From Jewelry to Automotive Solutions

There are no assurances that a shift in focus from jewelry sales to automotive solutions will produce the returns the Company and our model anticipates. Additionally, our estimates and outlook on AFMG could change substantially should the Ideenion acquisitions fail to close or the Apollo acquisition or new inverter not reach expectations.

Delay in Chinese Government Policy Change

The Company expects demand to soar in China upon the elimination of the foreign ownership limits on automakers. Any delay in this policy, which is expected to happen for passenger vehicles in 2022, could reduce demand for AAT services in China.

Dependence on the Global Automotive Sector

AFMG relies heavily on providing outsourced mobility engineering services and declines in that business from a global economic slowdown or weakness from key brand customers, like Audi, could have an adverse effect on future results.

Business Refocus for AAT Japan

AAT Japan is switching from developing EV solutions to providing outsourced mobility engineering solutions and technology development. AAT Japan may not see customer adoption as fast as we are modelling.

Development of New Apollo and De Tomaso Vehicles

There are no assurances future models of the Apollo or De Tomaso brands will be as in demand as current models, which would negatively impact our estimates.

Potential Acquisitions and Dilution

Management is maintaining flexibility in regards to additional acquisitions, which could include De Tomaso, technology companies or physical automotive-related assets. Such acquisitions could be done with shares, as past acquisitions have, and may result in dilution to current shareholders.

Inability to Divest Legacy Assets

We expect the Company to divest its legacy assets. Failure to do so or to receive fair prices could have an adverse effect on AFMG's financials until completed.

COVID-19

With operations spread across Asia and Europe, AFMG is subject to the impacts of COVID-19, both from a Company perspective (plant shutdowns) and an economic perspective (less car buying). The potential ramifications of this pandemic are currently unknown.

Foreign Currency Exchange

The Company's stock trades in Hong Kong Dollars, while it conducts business in Euros, Japanese Yen and Chinese Yuan. Movement in these currencies could have an adverse effect on financial performance and/or asset values.

ESTIMATED INCOME STATEMENT

(in 000s of HKD)	H1:19A	H2:19A	2019A	H1:20A	H2:20e	2020e	H1:21e	H2:21e	2021e	H1:22e	H2:22e	2022e
Revenue	281,128	255,227	536,355	256,908	209,384	466,292	445,445	564,019	1,009,464	657,895	761,706	1,419,601
Cost of Sales	(194,100)	(199,624)	(393,724)	(167,066)	(121,700)	(288,766)	(204,312)	(215,390)	(419,701)	(238,080)	(265,205)	(503,284)
Gross Profit	87,028	55,603	142,631	89,842	87,684	177,526	241,133	348,629	589,762	419,815	496,502	916,317
Other Income & Gains, Net	107,319	(86,163)	21,156	7,747	5,619	13,366	5,000	5,000	10,000	5,000	5,000	10,000
Selling & Distribution	(24,474)	(19,133)	(43,607)	(25,775)	(24,417)	(50,192)	(33,270)	(36,915)	(70,186)	(43,252)	(46,425)	(89,677)
General & Administrative	(73,930)	(92,802)	(166,732)	(93,862)	(99,587)	(193,449)	(108,403)	(116,215)	(224,618)	(120,344)	(126,662)	(247,006)
Research & Development	(5,353)	(15,838)	(21,191)	(7,636)	(8,487)	(16,123)	(18,089)	(26,638)	(44,727)	(26,838)	(31,238)	(58,076)
Other Expenses, Net	(114,131)	(428,583)	(542,714)	(219,375)	-	(219,375)	-	-	-	-	-	-
Finance Costs	(1,325)	(2,714)	(4,039)	(3,686)	(3,198)	(6,884)	(3,198)	(3,198)	(6,396)	(3,198)	(3,198)	(6,396)
Share of Losses of JV	-	(5,108)	(5,108)	-	(672)	(672)	(4,480)	47,040	42,560	141,120	188,160	329,280
Share-Losses of Associates	(8,896)	2,897	(5,999)	1,476	(4,000)	(2,524)	(4,000)	(4,000)	(8,000)	(4,000)	(4,000)	(8,000)
Loss Before Tax	(33,762)	(591,841)	(625,603)	(251,269)	(47,058)	(298,327)	74,694	213,703	288,397	368,304	478,139	846,442
Income Tax Expense	8,111	(1,837)	6,274	22,487	7,765	30,252	(12,324)	(35,261)	(47,585)	(60,770)	(78,893)	(139,663)
Net Loss	(25,651)	(593,678)	(619,329)	(228,782)	(39,294)	(268,076)	62,369	178,442	240,811	307,534	399,246	706,779
Non-Controlling Interests	(13,154)	(783)	(13,937)	(25,412)	1,740	(23,672)	5,165	13,621	18,786	22,222	25,311	47,534
Net Loss to Shareholders	(12,497)	(592,895)	(605,392)	(203,370)	(41,034)	(244,404)	57,204	164,821	222,025	285,311	373,934	659,246
Basic EPS (cents/sh)	(0.20)	(8.27)	(9.26)	(2.84)	(0.57)	(3.41)	0.69	1.98	2.68	3.16	3.94	7.12
Basic S/O	6,220,834	7,170,199	6,537,558	7,170,199	7,170,199	7,170,199	8,236,795	8,329,195	8,282,995	9,040,259	9,488,191	9,264,225
Diluted EPS (cents/sh)	(2.29)	(8.27)	(9.66)	(2.83)	(0.57)	(3.40)	0.69	1.97	2.66	3.13	3.91	7.06
Diluted S/O	6,220,834	7,170,199	6,537,558	7,188,919	7,199,470	7,194,194	8,282,506	8,386,371	8,334,438	9,105,078	9,558,469	9,331,773
H1:19A	H2:19A	2019A	H1:20A	H2:20e	2020e	H1:21e	H2:21e	2021e	H1:22e	H2:22e	2022e	2022e
Gross Margin	31.0%	21.8%	26.6%	35.0%	41.9%	38.1%	54.1%	61.8%	58.4%	63.8%	65.2%	64.5%
Net Margin	-4.4%	-232.3%	-112.9%	-79.2%	-19.6%	-52.4%	12.8%	29.2%	22.0%	43.4%	49.1%	46.4%

Source: 0860 documents filed with the HKEX and Greenridge Global estimates

DISCLOSURES**Distribution of Ratings**

Rating	Count	Percent	<u>I.B. last 12 months</u>	
			Count	Percent
BUY	9	90%	0	0%
HOLD	0	0%	0	0%
SELL	1	10%	0	0%
NO RATING	0	0%	0	0%

Explanation of Ratings

- BUY:** Describes undervalued stocks we expect to provide a total return (capital appreciation + yield) of 15% or more in the next twelve month period.
- HOLD:** Describes fully valued stocks we expect to provide a total return (capital appreciation + yield) of plus or minus 15% in the next twelve month period.
- SELL:** Describes overvalued stocks we expect to provide a total negative return (capital depreciation + yield) of 15% or more in the next twelve month period.
- NO RATING:** Describes stocks that have their investment rating and/or target price temporarily removed for fundamental or compliance-based reasons.

Analyst Certification

I, William Gregozeski, CFA, certify that all of the views expressed in this research report accurately reflect my personal views about the subject security and subject company. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

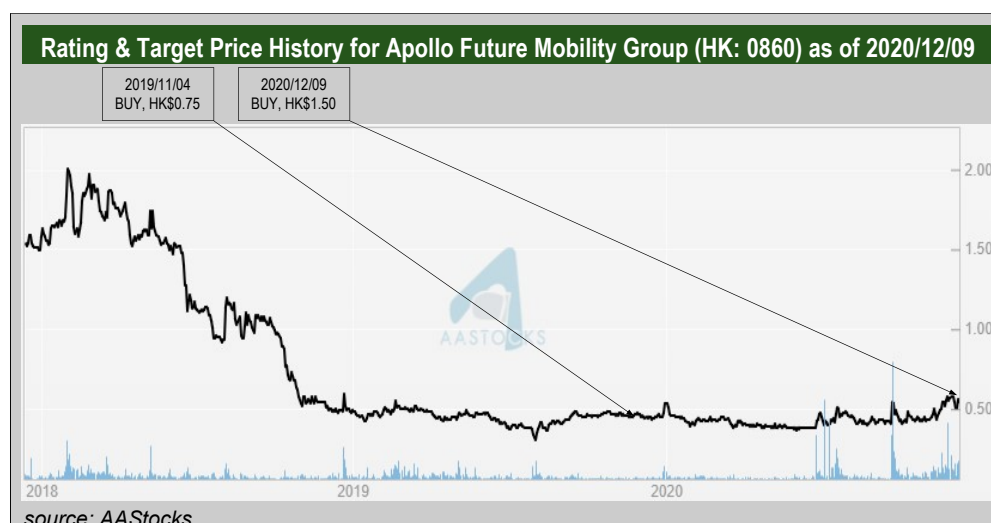
Other Disclosures

<u>Company</u>	<u>Disclosures</u>
Apollo Future Mobility Group Limited	8

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