

## Apollo Future Mobility Group Limited

HKSE: 0860

Maintaining Rating &amp; Raising Target

BUY, HK\$1.50

January 6, 2021

**MARKET DATA**

Share Price:	HK\$	0.75
Market Cap:	HK\$	6,177.59 M
52wk Range:	HK\$	0.35 - 0.91
Ave. Volume:		46,000,000
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	184.54 M
ST Debt:	HKD	147.47 M
LT Debt:	HKD	19.56 M
Book Value:	HKD	3,733.39 M
EBITDA (ttm):	HKD	(13.02) M
CFFO (ttm):	HKD	N/A

Auditor: Ernst &amp; Young

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

Mar	281.13	256.91	203.71	393.71
Sep	255.23	100.80	372.45	548.54
<b>REV</b>	<b>536.36</b>	<b>357.71</b>	<b>576.15</b>	<b>942.25</b>
<i>P/S</i>	<i>11.52</i>	<i>17.26</i>	<i>10.73</i>	<i>6.56</i>

**Diluted EPS**

Mar	(2.29)	(2.83)	(0.52)	2.35
Sep	(8.27)	(1.98)	1.26	3.27
<b>EPS</b>	<b>(9.66)</b>	<b>(4.81)</b>	<b>0.75</b>	<b>5.64</b>
<i>P/E</i>	<i>N/A</i>	<i>N/A</i>	<i>100.00</i>	<i>13.30</i>

**Dividend**

Mar	0.000	0.000	0.000	0.000
Sep	0.000	0.000	0.000	0.000
<b>DIV</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>
<i>Yield</i>	<i>0.00%</i>	<i>0.00%</i>	<i>0.00%</i>	<i>0.00%</i>

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**Ideenion Acquisition EGM Set**

**Ideenion Acquisition Update.** AMFG released the Circular for the Ideenion acquisition and announced it is holding an Extraordinary General Meeting on January 29 at 11am in Science Park to vote on the acquisition. A few key notes from the Circular include that prior to COVID, Ideenion was generating roughly HK\$157.6 million in Revenue and HK\$37.9 million in Net Profit per year. Despite being impacted by COVID, it has a pipeline of projects worth roughly €24,450,000 (HK\$233,000,000), as well as being in final negotiations with an emerging market client for a fuel cell vehicle and an EV setup with a total project value of €49,000,000 (HK\$467,000,000), which gives the vendors confidence in the profit targets being reached for the contingent cash and share issuances. The independent valuer found a current valuation of €22,000,000. AMFG is paying €15,000,000 in cash at closing, plus another €1,400,000 in cash and €5,600,000 in shares annually upon meeting profit targets in each of 2021, 2022 and 2023. All of the cash in Ideenion will be paid out to the Vendors prior to closing with the exception of €1,500,000. We again note, the potential share issuance is based on Ideenion reaching profit milestones over a three year period with shares being issued at the higher of HK\$0.52 or the three-month daily average.

**Model Update.** The model continues to be subject to significant fluctuations due to COVID, however it will get a bit of stability with the closing of the Ideenion acquisition and the world creeping back to normalcy with global vaccine distribution underway. One Apollo IE was delivered before the end of calendar Q4, marking the third such delivery; two were delivered prior to the completion of the acquisition. We expect a total of four to six IE's to be delivered over the course of fiscal 2021, with the remainder falling in fiscal 2022. The launch of the next Apollo model has been pushed back, and will now be launched later this year. The DeTomaso P72 has been delayed as well, with deliveries now expected in 2022, however AMFG should begin receiving its license fee on each car produced starting later this year. We continue to expect the auto products and services business to grow quickly as the world exits COVID and ramp significantly starting in 2022 as a number of the previously discussed products roll out to market. As a result of these changes, our estimated Revenue and Net Profit numbers for fiscal 2021 and 2022 have contracted.

**Maintaining Rating & Target.** Getting the Ideenion deal done is an important step for AMFG as it broadens the Company's reach and tier one customer base. We continue to believe AMFG is ideally positioned for the changing auto industry with its engineering capabilities and product offerings. As such, we are reiterating our Buy rating and HK\$1.50 target price on Apollo Future Mobility Group. Our target price is based on a P/E multiple of 25 times our fiscal 2022 Diluted EPS estimate of HK\$5.64 cents.

## COMPANY UPDATE

**Ideenion Acquisition Update.** AMFG released the Circular for the Ideenion acquisition and announced it is holding an Extraordinary General Meeting on January 29 at 11am in Science Park to vote on the acquisition. A few key notes from the Circular include that prior to COVID, Ideenion was generating roughly HK\$157.6 million in Revenue and HK\$37.9 million in Net Profit per year. Despite being impacted by COVID, it has a pipeline of projects worth roughly €24,450,000 (HK\$233,000,000), as well as being in final negotiations with an emerging market client for a fuel cell vehicle and an EV setup with a total project value of €49,000,000 (HK\$467,000,000), which gives the vendors confidence in the profit targets being reached for the contingent cash and share issuances. The independent valuer found a current valuation of €22,000,000. AMFG is paying €15,000,000 in cash at closing, plus another €1,400,000 in cash and €5,600,000 in shares annually upon meeting profit targets in each of 2021, 2022 and 2023. All of the cash in Ideenion will be paid out to the Vendors prior to closing with the exception of €1,500,000. We again note, the potential share issuance is based on Ideenion reaching profit milestones over a three year period with shares being issued at the higher of HK\$0.52 or the three-month daily average.

**H2:20 Results.** AMFG reported second half 2020 results (ending September 30) with Revenue of HK\$100.8 million, down significantly due to the impact of COVID. No Apollo IE hypercars were delivered in the period, although one was delivered prior to the end of the calendar year. Auto engineering services Revenue was just HK\$2.6 million as many projects were put on hold. All of the legacy businesses were hit hard by COVID, as well as Property Investment due to Shenyang expropriating property that the Company owned, which resulted in Other Gains, Net of HK\$255.9 million and HK\$281.2 million of Land Appreciation Tax in the period; AMFG turned a profit on the building as it had previously been marked up. Net Loss for the period was HK\$141.8 million, or HK\$1.98 cents per share.

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**Retirement of Non-Executive Director.** On December 30, Co-Chairman Zhang Jinbing notified the Board he would not seek re-election to the Board due to his other business commitments. Mr. Zhang was previously Chairman prior to the change in direction of AMFG in late 2016.

**Maintaining Rating & Target.** Getting the Ideenion deal done is an important step for AMFG as it broadens the Company's reach and tier one customer base. We continue to believe AMFG is ideally positioned for the changing auto industry with its engineering capabilities and product offerings. As such, we are reiterating our Buy rating and HK\$1.50 target price on Apollo Future Mobility Group. Our target price is based on a P/E multiple of 25 times our fiscal 2022 Diluted EPS estimate of HK\$5.64 cents.

## 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.

### Dependence on Key Customers

Ideenion has been dependent on a few key customers in recent years, which is to be expected given the relatively small number of auto manufacturers. The loss of any of these customers could have a significant adverse impact 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	H2:20A	2020A	H1:21e	H2:21e	2021e	H1:22e	H2:22e	2022e
<b>Revenue</b>	<b>281,128</b>	<b>255,227</b>	<b>536,355</b>	<b>256,908</b>	<b>100,797</b>	<b>357,705</b>	<b>203,706</b>	<b>372,447</b>	<b>576,153</b>	<b>393,705</b>	<b>548,542</b>	<b>942,246</b>
Cost of Sales	(194,100)	(199,624)	(393,724)	(167,066)	(64,724)	(231,790)	(131,655)	(139,989)	(271,644)	(117,248)	(176,948)	(294,196)
<b>Gross Profit</b>	<b>87,028</b>	<b>55,603</b>	<b>142,631</b>	<b>89,842</b>	<b>36,073</b>	<b>125,915</b>	<b>72,050</b>	<b>232,458</b>	<b>304,509</b>	<b>276,456</b>	<b>371,593</b>	<b>648,050</b>
Other Income & Gains, Net	107,319	(86,163)	21,156	7,747	11,065	18,812	5,923	5,000	10,923	5,000	5,000	10,000
Selling & Distribution	(24,474)	(19,133)	(43,607)	(25,775)	(30,778)	(56,553)	(25,499)	(29,967)	(55,466)	(28,037)	(36,580)	(64,617)
General & Administrative	(73,930)	(92,802)	(166,732)	(93,862)	(76,787)	(170,649)	(81,758)	(91,824)	(173,581)	(96,985)	(102,200)	(199,185)
Research & Development	(5,353)	(15,838)	(21,191)	(7,636)	(21,007)	(28,643)	(10,488)	(18,512)	(29,000)	(21,390)	(23,860)	(45,250)
Other Gain & Losses, Net	(114,131)	(428,583)	(542,714)	(219,375)	255,939	36,564	-	-	-	-	-	-
Finance Costs	(1,325)	(2,714)	(4,039)	(3,686)	(4,567)	(8,253)	(4,176)	(4,176)	(8,352)	(4,176)	(4,176)	(8,352)
Share of Losses of JV	-	(5,108)	(5,108)	-	(6)	(6)	(4,480)	47,040	42,560	141,120	188,160	329,280
Share-Losses of Associates	(8,896)	2,897	(5,999)	1,476	3,371	4,847	(4,000)	(4,000)	(8,000)	(4,000)	(4,000)	(8,000)
<b>Loss Before Tax</b>	<b>(33,762)</b>	<b>(591,841)</b>	<b>(625,603)</b>	<b>(251,269)</b>	<b>173,303</b>	<b>(77,966)</b>	<b>(52,427)</b>	<b>136,020</b>	<b>83,593</b>	<b>267,988</b>	<b>393,938</b>	<b>661,926</b>
Income Tax Expense	8,111	(1,837)	6,274	22,487	(303,884)	(281,397)	8,650	(22,443)	(13,793)	(44,218)	(65,000)	(109,218)
<b>Net Loss</b>	<b>(25,651)</b>	<b>(593,678)</b>	<b>(619,329)</b>	<b>(228,782)</b>	<b>(130,581)</b>	<b>(359,363)</b>	<b>(43,777)</b>	<b>113,577</b>	<b>69,800</b>	<b>223,770</b>	<b>328,938</b>	<b>552,708</b>
Non-Controlling Interests	(13,154)	(783)	(13,937)	(25,412)	11,226	(14,186)	(1,082)	7,985	6,904	9,898	16,814	26,712
<b>Net Loss to Shareholders</b>	<b>(12,497)</b>	<b>(592,895)</b>	<b>(605,392)</b>	<b>(203,370)</b>	<b>(141,807)</b>	<b>(345,177)</b>	<b>(42,695)</b>	<b>105,592</b>	<b>62,897</b>	<b>213,872</b>	<b>312,124</b>	<b>525,996</b>
<b>Basic EPS (cents/sh)</b>	<b>(0.20)</b>	<b>(8.27)</b>	<b>(9.26)</b>	<b>(2.84)</b>	<b>(1.98)</b>	<b>(4.81)</b>	<b>(0.52)</b>	<b>1.27</b>	<b>0.76</b>	<b>2.37</b>	<b>3.29</b>	<b>5.68</b>
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
<b>Diluted EPS (cents/sh)</b>	<b>(2.29)</b>	<b>(8.27)</b>	<b>(9.66)</b>	<b>(2.84)</b>	<b>(1.98)</b>	<b>(4.81)</b>	<b>(0.52)</b>	<b>1.26</b>	<b>0.75</b>	<b>2.35</b>	<b>3.27</b>	<b>5.64</b>
Diluted S/O	6,220,834	7,170,199	6,537,558	7,170,199	7,170,199	7,170,199	8,282,506	8,386,371	8,334,438	9,105,078	9,558,469	9,331,773
<b>Gross Margin</b>	<b>31.0%</b>	<b>21.8%</b>	<b>26.6%</b>	<b>35.0%</b>	<b>35.8%</b>	<b>35.2%</b>	<b>35.4%</b>	<b>62.4%</b>	<b>52.9%</b>	<b>70.2%</b>	<b>67.7%</b>	<b>68.8%</b>
<b>Net Margin</b>	<b>-4.4%</b>	<b>-232.3%</b>	<b>-112.9%</b>	<b>-79.2%</b>	<b>-140.7%</b>	<b>-96.5%</b>	<b>-21.0%</b>	<b>28.4%</b>	<b>10.9%</b>	<b>54.3%</b>	<b>56.9%</b>	<b>55.8%</b>

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

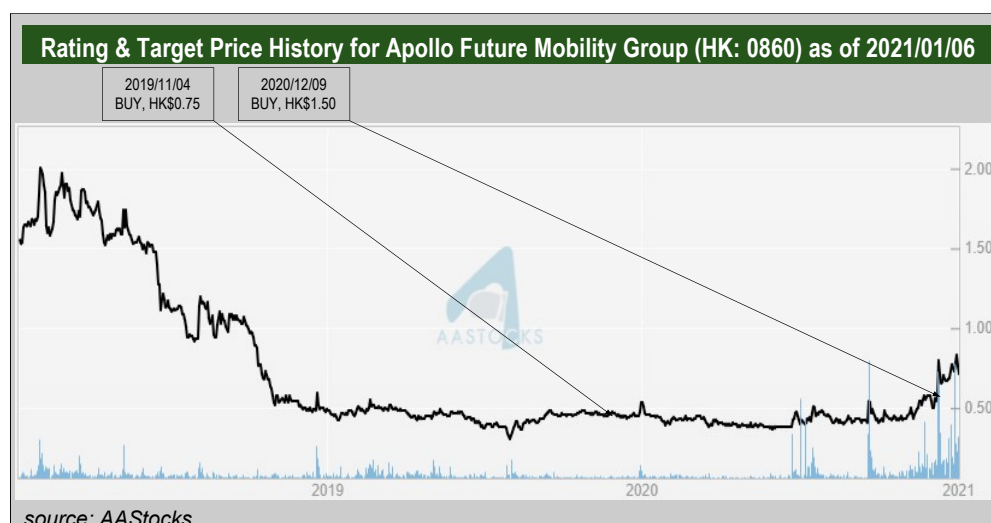
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## DISCLOSURES (continued)

### Other Disclosures

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