

Apollo Future Mobility Group Limited

HKSE: 0860

Maintaining Rating & Target

BUY, HK\$1.50

June 18, 2021

MARKET DATA

Share Price:	HK\$	0.445
Market Cap:	HK\$	3,552.34 M
52wk Range:	HK\$	0.375 - 0.91
Ave. Volume:		15,600,000
Basic S/O:		7,982.79 M
Fully Diluted S/O:		10,290.12 M
Float:		4,878.59 M
Board Lot:		4,000
Institutional (SDI) %:		28%
Insider %:		22%

FINANCIAL DATA (mrq)

Cash:	HKD	316.82 M
ST Debt:	HKD	50.75 M
LT Debt:	HKD	18.11 M
Book Value:	HKD	3,964.45 M
EBITDA (ttm):	HKD	N/A
CFFO (ttm):	HKD	N/A

Auditor: Ernst & Young

	HKD	2020A	2021e	2022e	2023e
Revenue (in Millions)					
Mar	256.91	241.08A	261.90	705.05	
Sep	100.80	225.15	344.72	1,426.19	
REV	357.71	466.23	606.63	2,131.24	
<i>P/S</i>	<i>10.05</i>	<i>7.71</i>	<i>5.92</i>	<i>1.69</i>	

Diluted EPS

Mar	(2.83)	(3.38)A	0.74	2.28
Sep	(1.98)	(0.24)	1.37	3.36
EPS	(4.81)	(2.83)	2.14	5.65
<i>P/E</i>	<i>N/A</i>	<i>N/A</i>	<i>18.43</i>	<i>6.86</i>

Dividend

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>

William Gregozeski, CFA
 wgregozeski@greenridgeglobal.com
 +1 414 435 1110

Shift In Inverter Model Should Yield Higher Profits Starting In 2023

H1:21 Results Driven By Jewelry & The Ideenion Closing. AFMG reported first half Revenue of HK\$241.1 million, beating our estimate due to much higher legacy Jewelry sales. Two IEs were delivered during the period, as expected, however Outsourced Engineering Revenue was weaker due to COVID-related delays and the Jinpeng business being booked through Ideenion, which only had roughly one month included in the period. Operating expenses were higher than expected, at HK\$267.6 million, due primarily to HK\$106.8 million in non-cash stock-based charges. Losses from JVs and Associates totaled HK\$22.9 million. Net Loss for the period was HK\$201.8 million.

Operations & Model Update. We made a number of significant changes to our model. We continued to spread out deliveries of the initial IE deliveries and pushed out EVO deliveries by six months, but added in 10 additional IE Roadster units to be delivered in the next 18 months. We also adjusted the Inverter from a license model to a product sale model, which had a significant impact on the model. Switching from a license model to an OEM model, including partnering with a European motor manufacturer for the electric motor, will push out Revenue for this product and reduce the gross margin. However, the Revenue and Net Margin from this product should be higher as compared to what the license model would have produced. We expect there will be immediate demand from OEMs to test the Inverter/Electric Motor later this year. We also made reductions to the Jinpeng JV due to COVID-related delays. The timing of EVO deliveries, Jinpeng sales growing, and commercial orders for the Inverter set up 2023 to be a big year for AFMG, and all of this still excludes the Shanghai JV, which could potentially deliver more than 1,000 Apollo-branded EVs in 2023; we will continue to hold off adding this to our model until greater detail is provided on the structure and plan for the proposed JV.

Maintaining Rating & Target. While the timing of certain deliveries have been shifted, the story remains the same, AFMG is exceedingly well positioned to take advantage of the shifts in the auto market. The Company has a hypercar business that is generating Revenue, a global outsourced engineering platform with Tier 1 OEM clients, turnkey EV platforms and next gen technologies, the Jinpeng deal which is bringing AFMG's EV know-how to market, and the potential for its Shanghai Jinqiao JV to set Apollo up as an EV brand in commercial production in the next two years. We are still quite optimistic on the future of Apollo Future Mobility Group and are reiterating our Buy rating and HK\$1.50 target price. Our target price is based on a P/E multiple of 25 times our fiscal 2023 Diluted EPS estimate of HK\$5.65 cents, which excludes any impact from the Apollo EV that should be in production from the Shanghai JV at this time.

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 acquisitions of Apollo or Ideenion 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 outsourced engineering 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

	H1:20A	H2:20A	2020A	H1:21A	H2:21e	2021e	H1:22e	H2:22e	2022e	H1:23e	H2:23e	2023e
(in 000s of HKD)												
Revenue	256,908	100,797	357,705	241,080	225,150	466,230	261,902	344,724	606,626	705,049	1,426,189	2,131,238
Cost of Sales	(167,066)	(64,724)	(231,790)	(179,913)	(128,911)	(308,824)	(140,760)	(196,090)	(336,850)	(489,823)	(1,044,123)	(1,533,945)
Gross Profit	89,842	36,073	125,915	61,167	96,240	157,407	121,142	148,634	269,776	215,226	382,067	597,293
Other Income & Gains, Net	7,747	11,065	18,812	3,568	6,584	10,152	6,488	6,751	13,239	7,268	8,111	15,379
Selling & Distribution	(25,775)	(30,778)	(56,553)	(29,561)	(24,031)	(53,592)	(22,571)	(24,996)	(47,567)	(37,238)	(61,034)	(98,271)
General & Administrative	(93,862)	(76,787)	(170,649)	(207,255)	(83,424)	(290,679)	(64,900)	(65,534)	(130,434)	(70,040)	(100,167)	(170,207)
Research & Development	(7,636)	(21,007)	(28,643)	(30,818)	(31,937)	(62,755)	(32,718)	(32,776)	(65,494)	(48,062)	(77,609)	(125,671)
Other Gain & Losses, Net	(219,375)	255,939	36,564	17,467	-	17,467	-	-	-	-	-	-
Finance Costs	(3,686)	(4,567)	(8,253)	(3,670)	(1,721)	(5,391)	(1,721)	(1,721)	(3,443)	(1,721)	(1,721)	(3,443)
Share of Losses of JV	-	(6)	(6)	-	7,168	7,168	67,200	120,960	188,160	188,160	235,200	423,360
Share-Losses of Associates	1,476	3,371	4,847	(22,876)	3,708	(19,168)	3,894	4,088	7,982	4,293	4,507	8,800
Loss Before Tax	(251,269)	173,303	(77,966)	(211,978)	(27,413)	(239,391)	76,814	155,405	232,219	257,886	389,354	647,240
Income Tax Expense	22,487	(303,884)	(281,397)	4,631	4,523	9,154	(12,674)	(25,642)	(38,316)	(42,551)	(64,243)	(106,795)
Net Loss	(228,782)	(130,581)	(359,363)	(207,347)	(22,890)	(230,237)	64,139	129,764	193,903	215,335	325,111	540,445
Non-Controlling Interests	(25,412)	11,226	(14,186)	(5,529)	(3,718)	(9,247)	(1,558)	509	(1,049)	4,555	11,800	16,356
Net Loss to Shareholders	(203,370)	(141,807)	(345,177)	(201,818)	(19,172)	(220,990)	65,697	129,254	194,952	210,779	313,311	524,090
Basic EPS (cents/sh)	(2.84)	(1.98)	(4.81)	(2.69)	(0.24)	(2.84)	0.75	1.40	2.16	2.28	3.36	5.65
Basic S/O	7,170,199	7,170,199	7,170,199	7,510,483	8,075,195	7,792,839	8,786,259	9,234,191	9,010,225	9,234,191	9,326,591	9,280,391
Diluted EPS (cents/sh)	(2.84)	(1.98)	(4.81)	(3.38)	(0.24)	(2.83)	0.74	1.37	2.14	2.28	3.36	5.65
Diluted S/O	7,170,199	7,170,199	7,170,199	7,510,483	8,091,445	7,800,964	8,855,962	9,403,505	9,129,734	9,234,191	9,326,591	9,280,391
Gross Margin	35.0%	35.8%	35.2%	25.4%	42.7%	33.8%	46.3%	43.1%	44.5%	30.5%	26.8%	28.0%
Net Margin	-79.2%	-140.7%	-96.5%	-83.7%	-8.5%	-47.4%	25.1%	37.5%	32.1%	29.9%	22.0%	24.6%

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	100%	0	0%
HOLD	0	0%	0	0%
SELL	0	0%	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

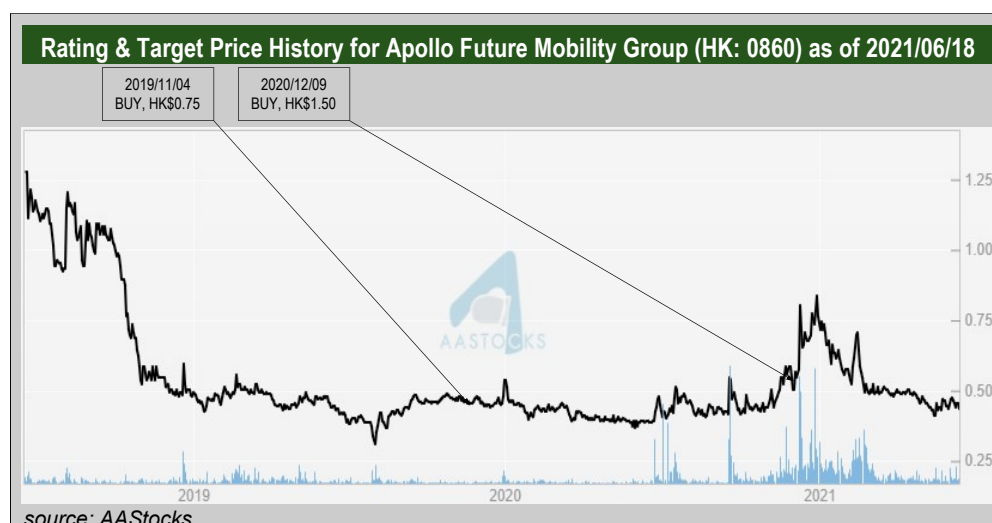
- Greenridge Global makes a market in the security of the subject company.
- The analyst serves as an officer, director, or advisory board member of the subject company.
- The analyst or a member of the analyst's household has a financial interest in the securities of the subject company, including, but not limited to a long position, short position, rights, warrants, futures, or options.
- Greenridge Global or an affiliate of Greenridge Global has managed or co-managed a public offering of the security of the subject company in the last 12 months.
- Greenridge Global or an affiliate of Greenridge Global has received compensation for investment banking services from the subject company in the last 12 months.
- Greenridge Global expects to receive or intends to seek compensation for investment banking services from the subject company in the next three months.
- Greenridge Global or an affiliate of Greenridge Global beneficially own 1% or more of the common stock of the subject company as calculated in accordance with Section 13(d) of the Securities Exchange Act of 1934.
- The subject company is, or during the past 12 months was, a client of Greenridge Global, which provided non-investment banking, securities-related services to, and received compensation from, the subject company for such services.
- An affiliate of Greenridge Global received compensation from the subject company for products or services other than investment banking services during the past 2 months.

DISCLOSURES (continued)

Other Disclosures

This report has been prepared by Greenridge Global LLC, an unregistered US-based financial services firm, employing appropriate expertise and in the belief that it is fair and not misleading. The information upon which this material is based was obtained from sources believed to be reliable, but has not been independently verified, therefore, we do not guarantee its accuracy. Any opinion or estimates expressed in this report constitute our best judgment as of the date of the report and are subject to change without notice. Greenridge Global seeks to update its research as appropriate, but various regulations may prevent Greenridge Global from doing so. This report was prepared solely for informational purposes for Greenridge's institutional clients and does not constitute a personal recommendation, solicitation or offer to buy or sell any security, or take into account the particular investment objectives, financial situations, or needs of individual clients. The securities described herein may not be qualified for purchase in all jurisdictions or be suitable for all investors. Each investor should consider whether any information regarding securities mentioned in this report is suitable for their particular circumstances and, if appropriate, seek professional advice, including tax advice. Additional and supporting information is available upon request.

Rating History



Greenridge Global's research reports are disseminated and available electronically, and in some cases, printed form. Electronic research is simultaneously available to all clients. This report or any portion herein may not be reprinted, sold or redistributed without the written consent of Greenridge Global LLC. For information on how to be added to Greenridge's research distribution list please contact:

William Gregozeski, CFA
+1 414 435 1110
wgregozeski@greenridgeglobal.com

Greenridge Global LLC
10 S. Riverside Plaza
Suite 875
Chicago, IL 60606 USA
www.greenridgeglobal.com