

Apollo Future Mobility Group Limited

HKSE: 0860

Maintaining Rating & Target

BUY, HK\$1.50

December 6, 2021

MARKET DATA

Share Price:	HK\$	0.50
Market Cap:	HK\$	3,991.40 M
52wk Range:	HK\$	0.315 - 0.91
Ave. Volume:		19,600,000
Basic S/O:		7,982.79 M
Fully Diluted S/O:		10,777.69 M
Float:		3,547.75 M
Board Lot:		4,000
Institutional (SDI) %:		12%
Insider %:		41%

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	234.23	496.37
Sep	100.80	181.40	298.02	969.28
REV	357.71	422.48	532.25	1,465.65
<i>P/S</i>	<i>11.16</i>	<i>9.45</i>	<i>7.50</i>	<i>2.72</i>

Diluted EPS

Mar	(2.83)	(3.38)A	0.89	2.59
Sep	(1.98)	(0.20)	1.53	3.07
EPS	(4.81)	(2.81)	2.44	5.66
<i>P/E</i>	<i>N/A</i>	<i>N/A</i>	<i>20.49</i>	<i>8.83</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>

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WM Motors Becomes Largest Shareholder

WM Motors Becomes Largest Shareholder. Last week there were a number of transactions with AFMG's shareholders and WM Motors, which resulted in WM Motors becoming the largest shareholder of 860, now holding 28.5% of the issued shares. The Ho family, which had been the largest shareholder, exchanged 815,000,000 shares and Agile Property [HK: 3383] exchanged its 794,386,000 shares at HK\$0.68 per share for WM shares; Agile also led the recent Series D2 round of WM Motors. Li Ka Shing and Solina Chau exchanged the remainder for WM shares, however the decrease in their shareholding of 860 was less magnified as they participated in the convertible debt deal prior to the exchange, as detailed below. While no formal statements have been made about the change in largest shareholder, we view these transactions as a net positive for AFMG. It ties the Company to an established auto manufacturer with a great deal of excess production capacity, which Apollo could potentially use for its Apollo branded EVs in China, provides the potential for better pricing on components, and could result in WM working with AAT for ESO projects.

HK\$163.8 Million Raised From Convertible Debt. In September, AFMG raised a total of HK\$163.8 million from the issuance of three-year 9% notes convertible at HK\$0.55 per share. Roughly half of the notes were purchased by Li Ka Shing, Solina Chau and Tony Ho. The proceeds will be used for continued investments in its operations, namely new vehicle development and expansion of the ESO business.

Series Of Product Showcases. AFMG had another successful showing at CIIIE last month, followed up by a showcase at the Macau Grand Prix, with an invitation-only event in Hong Kong on December 9.

Operations & Model Update. We made a number of changes to the model, primarily related to the timeline for vehicle deliveries, the biggest of which was pushing out Project EVO and its large Revenue contribution to 2024. The Company appears to have settled into a defined vehicle release schedule, with the IE Roadster and EVO Track models to be released prior to the EVO. We note our estimates contain no Revenue from the EVision S, which could completely change the model with thousands of vehicles delivered annually, starting in 2024. We also note that 38.76 million options have expired since the end of the fiscal year.

Maintaining Rating & Target. We view the share exchanges with WM Motors to be a net positive as it could speed the time to market and reduce the cost to bring the Apollo EVision S to mass production. We continue to believe the Company is being substantially undervalued by the market, given the valuations standalone EV companies receive, which is just one part of AFMG. Given its broad product and service portfolio, which should turn profitable in 2022, 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 2023 Diluted EPS estimate of HK\$5.79 cents, which falls just before the launch of the Apollo EVision S.

COMPANY UPDATE

WM Motors Becomes Largest Shareholder. Last week there were a number of transactions with AFMG's shareholders and WM Motors, which resulted in WM Motors becoming the largest shareholder of 860, now holding 28.5% of the issued shares. The Ho family, which had been the largest shareholder, exchanged 815,000,000 shares and Agile Property [HK: 3383] exchanged its 794,386,000 shares at HK\$0.68 per share for WM shares; Agile also led the recent Series D2 round of WM Motors. Li Ka Shing and Solina Chau exchanged the remainder for WM shares, however the decrease in their shareholding of 860 was less magnified as they participated in the convertible debt deal prior to the exchange, as detailed below. While no formal statements have been made about the change in largest shareholder, we view these transactions as a net positive for AFMG. It ties the Company to an established auto manufacturer with a great deal of excess production capacity, which Apollo could potentially use for its Apollo branded EVs in China, provides the potential for better pricing on components, and could result in WM working with AAT for ESO projects.

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Series Of Product Showcases. AFMG had another successful showing at CIIE last month, which highlighted the Project EVO, the follow up to the Apollo IE; the EVision S, the EV that is intended to be commercially produced and sold in China; the UME electric delivery vehicle; a carbon fiber chassis and a powertrain featuring two 800V E-Motors and its 800V inverter. This was followed up by a showcase at the Macau Grand Prix featuring the Project EVO and EVision S. The Project EVO, EVision S and 800V powertrain will also be on display at an invitation-only event in Hong Kong this Thursday, December 9.

Change In Corporate Headquarters. Effective November 22, AFMG moved its corporate headquarters to Units 2001-2002, 20/F, Li Po Chun Chambers, 189 Des Voeux Central, Sheung Wan, Hong Kong. We view the move as a positive as the Company is now in the business district rather than a relatively long commute away.

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RISKS

Capital Requirements

AFMG is in a capital intensive business and may need to raise money from time to time, which could be dilutive to existing shareholders.

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 increase 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
Revenue	256,908	100,797	357,705	241,080	181,400	422,480	234,227	298,024	532,251	496,374	969,277	1,465,651
Cost of Sales	(167,066)	(64,724)	(231,790)	(179,913)	(98,410)	(278,323)	(101,869)	(137,927)	(239,796)	(330,116)	(730,084)	(1,060,200)
Gross Profit	89,842	36,073	125,915	61,167	82,991	144,158	132,358	160,097	292,455	166,258	239,192	405,451
Other Income & Gains, Net	7,747	11,065	18,812	3,568	6,584	10,152	6,502	6,841	13,343	7,437	8,461	15,898
Selling & Distribution	(25,775)	(30,778)	(56,553)	(29,561)	(22,718)	(52,279)	(21,975)	(23,361)	(45,336)	(29,262)	(44,596)	(73,858)
General & Administrative	(93,862)	(76,787)	(170,649)	(207,255)	(82,111)	(289,366)	(63,719)	(64,484)	(128,203)	(64,404)	(66,920)	(131,324)
Research & Development	(7,636)	(21,007)	(28,643)	(30,818)	(29,750)	(60,568)	(30,749)	(31,026)	(61,775)	(33,309)	(34,448)	(67,757)
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)	(9,092)	(9,092)	(18,185)	(9,092)	(9,092)	(18,185)
Share of Losses of JV	-	(6)	(6)	-	-	-	-	-	-	-	-	-
Share of Losses of Associates	1,476	3,371	4,847	(22,876)	25,609	2,733	85,363	139,876	225,239	267,072	274,663	541,735
Loss Before Tax	(251,269)	173,303	(77,966)	(211,978)	(21,117)	(233,095)	98,689	178,825	277,515	304,652	367,186	671,837
Income Tax Expense	22,487	(303,884)	(281,397)	4,631	3,484	8,115	(16,284)	(29,506)	(45,790)	(50,268)	(60,586)	(110,853)
Net Loss	(228,782)	(130,581)	(359,363)	(207,347)	(17,633)	(224,980)	82,4,6	149,319	231,725	254,384	306,600	560,984
Non-Controlling Interests	(25,412)	11,226	(14,186)	(5,529)	(1,301)	(6,830)	3,919	6,413	10,333	4,646	8,951	13,597
Net Loss to Shareholders	(203,370)	(141,807)	(345,177)	(201,818)	(16,331)	(218,149)	78,487	142,906	221,392	249,739	297,649	547,388
Basic EPS (cents/sh)	(2.84)	(1.98)	(4.81)	(2.69)	(0.20)	(2.82)	0.89	1.53	2.47	2.70	3.22	5.93
Basic S/O	7,170,199	7,170,199	7,170,199	7,510,483	7,982,795	7,746,639	8,786,259	9,141,791	8,964,025	9,234,191	9,234,191	9,234,191
Diluted EPS (cents/sh)	(2.84)	(1.98)	(4.81)	(3.38)	(0.20)	(2.81)	0.89	1.53	2.44	2.59	3.07	5.66
Diluted S/O	7,170,199	7,170,199	7,170,199	7,510,483	7,999,045	7,754,764	8,801,467	9,313,436	9,057,452	9,632,527	9,692,741	9,662,634
Gross Margin	35.0%	35.8%	35.2%	25.4%	45.8%	34.1%	56.5%	53.7%	54.9%	33.5%	24.7%	27.7%
Net Margin	-79.2%	-140.7%	-96.5%	-83.7%	-9.0%	-51.6%	33.5%	48.0%	41.6%	50.3%	31.3%	37.3%

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>
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