

## Apollo Future Mobility Group Limited

HKSE: 0860

Maintaining Rating &amp; Target

BUY, HK\$1.50

January 17, 2021

**MARKET DATA**

Share Price:	HK\$	0.455
Market Cap:	HK\$	3,632.17 M
52wk Range:	HK\$	0.315 - 0.73
Ave. Volume:		13,200,000
Basic S/O:		7,982.79 M
Fully Diluted S/O:		10,904.92 M
Float:		3,547.75 M
Board Lot:		4,000
Institutional (SDI) %:		12%
Insider %:		41%

**FINANCIAL DATA** (mrq)

Cash:	HKD	150.05 M
ST Debt:	HKD	116.68 M
LT Debt:	HKD	53.80 M
Book Value:	HKD	3,639.58 M
EBITDA (ttm):	HKD	N/A
CFFO (ttm):	HKD	N/A

Auditor: Ernst &amp; Young

HKD	2020A	2021A	2022e	2023e
<b>Revenue (in Millions)</b>				
Mar	256.91	241.08	218.90	519.44
Sep	100.80	287.48	321.49	991.06
<b>REV</b>	<b>357.71</b>	<b>528.56</b>	<b>540.39</b>	<b>1,510.50</b>
P/S	9.93	6.72	6.57	2.35

**Diluted EPS**

Mar	(2.83)	(3.38)	0.81	2.64
Sep	(1.98)	(1.71)	1.61	3.11
<b>EPS</b>	<b>(4.81)</b>	<b>(5.05)</b>	<b>2.44</b>	<b>5.75</b>
P/E	N/A	N/A	15.95	6.32

**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>
Yield	0.00%	0.00%	0.00%	0.00%

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**Changes to Board & Management Team**

**Changes to Board & Management Team.** On Thursday, AFMG announced changes to the management team and Board, highlighted by the addition of Freeman Hui Shen as Co-Chairman of the Board. Mr. Shen is the founder, Chairman and CEO of WM Motor Group, a Chinese-based EV manufacturer, and largest shareholder of AFMG. Mr. Shen will also serve as Chair of the Nomination Committee and as a member of the Investment Committee of the Board. Joseph Lee was appointed as an Executive Director, Vice Chairman of the Board, and a member of the Investment Committee and Corporate Governance Committee. Mr. Lee brings over 15 years of private equity and investment banking experience to AFMG, will earn HK\$200,000 per month in salary, and was granted 40,000,000 ten-year options exercisable at HK\$0.44. Eric Ho will no longer serve as Chair of the Nomination Committee and will now serve as Co-Chairman instead of Chairman. With the reduction in shareholding and entrance of WM Motors, it is unclear how involved Mr. Ho will be going forward.

**H2:21 Results.** AFMG reported H2:21 Revenue of HK\$287.5 million, well ahead of our estimate due to the higher than expected contribution from the legacy Jewelry business. The Auto business was lower than we expected, at HK\$60.6 million, due to a delay in deliveries of two IE vehicles. As the Company has noted, the ESO business continues to build and it expanded last year to accommodate that growth. Operating expenses were roughly in line with our expectations. Non-operating expenses and losses in the period were mostly related to legacy assets or the contingent accounting for acquisitions. Net Loss for the period was HK\$147.8 million, or HK\$1.71 per diluted share.

**Model Update.** We shifted the two delayed IE deliveries into fiscal 2022 and added in the 125,000,000 ten-year stock option grant, exercisable at HK\$0.445 into our model. We left everything else relatively unchanged as AFMG moves towards more rapid growth on multiple fronts.

**Maintaining Rating & Target.** The addition of Mr. Shen as Co-Chairman is a logical step to better align WM Motors and AFMG. We continue to believe the Company is significantly undervalued based on the sum of its parts, and expect that discount to fair value to decrease as its investment holdings move towards being publicly listed. We remain optimistic on AFMG's potential and 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\$5.75 cents, which falls just before the launch of the Apollo EVision S.

## 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.

### Government Policy Changes

The Company expects demand to increase 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 have an adverse impact on ESO Revenue in China. Unrelated, the Chinese government is reducing incentives on EVs, which could lessen demand for these vehicles, however AFMG management does not believe it will have a material impact on its business.

### 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).

### 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)								
	H1:21A	H2:21A	2021A	H1:22e	H2:22e	2022e	H1:23e	H2:23e	2023e
<b>Revenue</b>	<b>241,080</b>	<b>287,479</b>	<b>528,559</b>	<b>218,898</b>	<b>321,494</b>	<b>540,393</b>	<b>519,437</b>	<b>991,057</b>	<b>1,510,495</b>
Cost of Sales	(179,913)	(217,138)	(397,051)	(93,741)	(145,976)	(239,717)	(338,485)	(737,556)	(1,076,042)
<b>Gross Profit</b>	<b>61,167</b>	<b>70,341</b>	<b>131,508</b>	<b>125,158</b>	<b>175,518</b>	<b>300,676</b>	<b>180,952</b>	<b>253,501</b>	<b>434,453</b>
Other Income & Gains, Net	3,568	15,310	18,878	5,750	6,037	11,788	6,641	7,669	14,310
Selling & Distribution Expenses	(29,561)	(13,376)	(42,937)	(21,257)	(24,570)	(45,827)	(30,446)	(45,728)	(76,173)
General & Administrative Expenses	(207,255)	(87,508)	(294,763)	(64,263)	(64,988)	(129,251)	(64,847)	(67,322)	(132,169)
Research & Development Costs	(30,818)	(46,993)	(77,811)	(30,798)	(31,093)	(61,891)	(33,396)	(34,542)	(67,937)
Other Gain & Losses, Net	17,467	(58,821)	(41,354)	-	-	-	-	-	-
Finance Costs	(3,670)	(3,153)	(6,823)	(10,439)	(10,439)	(20,878)	(10,439)	(10,439)	(20,878)
Share of Losses of JV	-	(2)	(2)	-	-	-	-	-	-
Share of Losses of Associates	(22,876)	(20,029)	(42,905)	85,144	139,517	224,662	266,387	273,959	540,346
<b>Loss Before Tax</b>	<b>(211,978)</b>	<b>(144,231)</b>	<b>(356,209)</b>	<b>89,295</b>	<b>189,985</b>	<b>279,279</b>	<b>314,853</b>	<b>377,099</b>	<b>691,952</b>
Income Tax Expense	4,631	(7,775)	(3,144)	(14,734)	(31,347)	(46,081)	(51,951)	(62,221)	(114,172)
<b>Net Loss</b>	<b>(207,347)</b>	<b>(152,006)</b>	<b>(359,353)</b>	<b>74,561</b>	<b>158,637</b>	<b>233,198</b>	<b>262,902</b>	<b>314,878</b>	<b>577,780</b>
Non-Controlling Interests	(5,529)	(4,235)	(9,764)	2,776	7,710	10,487	5,847	10,141	15,988
<b>Net Loss to Shareholders</b>	<b>(201,818)</b>	<b>(147,771)</b>	<b>(349,589)</b>	<b>71,785</b>	<b>150,927</b>	<b>222,712</b>	<b>257,055</b>	<b>304,736</b>	<b>561,792</b>
<b>Basic EPS (cents/sh)</b>	<b>(2.69)</b>	<b>(1.85)</b>	<b>(4.51)</b>	<b>0.82</b>	<b>1.65</b>	<b>2.48</b>	<b>2.78</b>	<b>3.30</b>	<b>6.08</b>
Basic S/O	7,510,483	7,982,795	7,747,286	8,786,259	9,141,791	8,964,025	9,234,191	9,234,191	9,234,191
<b>Diluted EPS (cents/sh)</b>	<b>(3.38)</b>	<b>(1.71)</b>	<b>(5.05)</b>	<b>0.81</b>	<b>1.61</b>	<b>2.44</b>	<b>2.64</b>	<b>3.11</b>	<b>5.75</b>
Diluted S/O	7,510,483	7,999,045	7,747,286	8,869,243	9,389,956	9,129,600	9,738,144	9,806,088	9,772,116
Gross Margin	25.4%	24.5%	24.9%	57.2%	54.6%	55.6%	34.8%	25.6%	28.8%
Net Margin	-83.7%	-51.4%	-66.1%	32.8%	46.9%	41.2%	49.5%	30.7%	37.2%

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.

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**Other Disclosures**

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

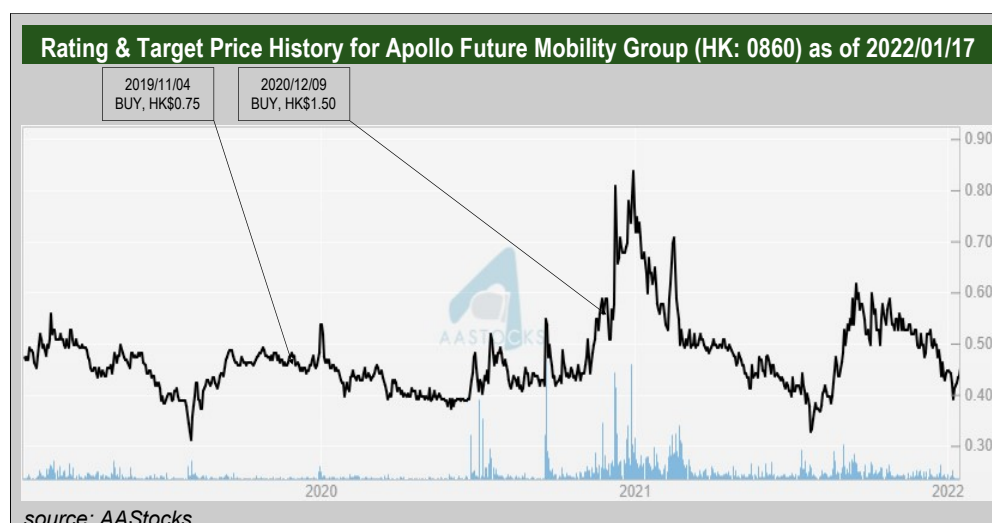
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