

Apollo Future Mobility Group Limited

HKSE: 0860

Maintaining Rating & Target Price

BUY, HK\$0.75

March 23, 2020

MARKET DATA

Share Price:	HK\$	0.405
Market Cap:	HK\$	2,903.93 M
52wk Range:	HK\$	0.248 - 0.54
Ave. Volume:		6,000,000
Basic S/O:		7,170.20 M
Fully Diluted S/O:		9,257.36 M
Float:		3,811.99 M
Board Lot:		4,000
Institutional (SDI) %:		23%
Insider %:		24%

FINANCIAL DATA (mrq)

Cash:	HKD	447.61 M
ST Debt:	HKD	104.68 M
LT Debt:	HKD	21.81 M
Book Value:	HKD	4,043.67 M
EBITDA (ttm):	HKD	N/A
CFFO (ttm):	HKD	N/A

Auditor: Ernst & Young

HKD	2018A	2019A	2020e	2021e
Revenue (in Millions)				
Mar	344.12	281.13	296.18	437.86
Sep	372.90	255.23	330.56	669.89
REV	717.02	536.36	626.73	1,107.75
P/S	4.05	5.42	4.63	2.62

Diluted EPS

Mar	(2.54)	(2.29)	0.11	0.65
Sep	0.90	(8.27)	0.26	4.27
EPS	(1.61)	(9.66)	0.38	4.94
P/E	N/A	N/A	106.58	8.20

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
Yield	0.00%	0.00%	0.00%	0.00%

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Apollo Acquisition & Corporate Name Change Approved

Acquisition & Name Change Approved At EGM. Last week, the acquisition of Apollo was completed, which followed approval at the EGM the week prior, where the name change to Apollo Future Mobility Group Limited was also approved. Upon reaching profit milestones, the Consideration Shares for the acquisition will be issued after the end of the 2021 fiscal year.

New EV Inverter Technology. On February 18, Apollo's subsidiary, GLM made a joint announcement with ROHM Co [TYO: 6963] regarding the joint development of an 800 volt twin silicon carbide inverter, which coupled with its battery offers a smaller, lighter, heat-resistant alternative to current 400 volt inverters while enabling charging at a significantly faster rate, at roughly 12 minutes for an 80% charge compared to 30 minutes for Tesla's [Nasdaq: TSLA] Supercharger. Management believes the product could be in commercial production by the second half of 2021 and incorporated into new EVs immediately upon release. Production is expected to be outsourced to a leading motor supplier who will package the inverter with a motor, and AFMG will receive a license fee on each unit sold. It is worth noting Delphi recently announced it secured a US\$2.7 billion order for a similar 800 volt inverter that is expected to be in commercial production in 2022.

Coronavirus Impact on AFMG. COVID-19 has resulted in plant shutdowns and delays for AFMG's Asian and European operations. China saw plant shutdowns and significant declines in vehicle sales, which likely has resulted in declining contract work for AAT China that could spread over fiscal 2020. Additionally, the shutdowns have delayed formal approval of the Jinpeng JV and pushed the deadline to complete the Indeenion acquisition to June 30, 2020 due to travel restrictions and an increase in working from home in Hong Kong. The coronavirus pandemic has also hit AFMG's European operations, with production at Apollo's manufacturing facility shut down. We expect this will stretch deliveries on the IE into next fiscal year. Thus far, AAT Europe's engineering and consulting business appears to be relatively unaffected, although most workers are working from home. We do not believe any of this negatively impacts the future prospects for AFMG, and if anything, could further highlight the need for outsourced work.

Model Update. We made a number of changes to the model, including shifting out delivery of some of the Apollo IE hypercars, scaling back Revenue from AAT China and delaying the start of the Jinpeng JV, as noted above. We also added in license fee income from the new inverter technology, starting with 25,000 units in fiscal 2021 and 80,000 units in fiscal 2022. Given the distinct advantages this product provides and the range extension it offers to EVs, these estimates could prove to be quite conservative.

COMPANY UPDATE

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Maintaining Rating & Target. The COVID-19 pandemic has had a negative near-term impact on AFMG, but longer term could reinforce the value the Company provides for its outsourced engineering work. In addition to being an outsourced engineering provider and hypercar brand/manufacturer, the announcement of the new inverter technology changes the outlook of AFMG as it can also be viewed as a key component technology provider, which could become a significant source of profits for the Company. With progress continuing on all fronts and a new source of income announced, we are reiterating our Buy rating and HK\$0.75 target price on WE Solutions Limited. Our target price is based on a P/E multiple of 17 times our fiscal 2021 Diluted EPS estimate of HK\$4.94 cents, discounted one year at 15%. We again note that our model assumes Ideenion's consideration shares will be issued at HK\$0.52 and not a likely higher price which would result in less shares being issued.

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.

Illiquid Trading

The Company's stock trades less than HK\$10,000,000 per day, which may make it difficult to buy or sell a large position in the open market without moving the stock price.

ESTIMATED INCOME STATEMENT

(in 000s of HKD)	H1:19A	H2:19A	2019A	H1:20e	H2:20e	2020e	H1:21e	H2:21e	2021e	H1:22e	H2:22e	2022e
Revenue	03/31/19	09/30/19		03/31/20	09/30/20		03/31/21	09/30/21		03/31/22	09/30/22	
	281,128	255,227	536,355	296,176	330,556	626,732	437,860	669,890	1,107,751	880,240	1,003,815	1,884,055
Cost of Sales	(194,100)	(199,624)	(393,724)	(142,354)	(146,118)	(288,472)	(171,758)	(257,408)	(429,166)	(352,358)	(400,108)	(752,466)
Gross Profit	87,028	55,603	142,631	153,822	184,438	338,260	266,102	412,482	678,584	527,882	603,707	1,131,589
Other Income & Gains, Net	107,319	(86,163)	21,156	7,238	5,000	12,238	5,000	5,000	10,000	5,000	5,000	10,000
Selling & Distribution	(24,474)	(19,133)	(43,607)	(24,722)	(26,106)	(50,828)	(31,926)	(45,775)	(77,701)	(59,026)	(65,875)	(124,901)
General & Administrative	(73,930)	(92,802)	(166,732)	(102,338)	(105,420)	(207,758)	(109,912)	(116,658)	(226,570)	(121,946)	(127,099)	(249,045)
Research & Development	(5,353)	(15,838)	(21,191)	(13,238)	(14,220)	(27,458)	(18,190)	(21,552)	(39,742)	(25,545)	(27,215)	(52,760)
Other Expenses, Net	(114,131)	(428,583)	(542,714)	-	-	-	-	-	-	-	-	-
Finance Costs	(1,325)	(2,714)	(4,039)	(3,162)	(3,162)	(6,324)	(3,162)	(3,162)	(6,324)	(3,162)	(3,162)	(6,324)
Share of Losses of JV	-	(5,108)	(5,108)	-	(8,960)	(8,960)	(35,840)	179,200	143,360	241,920	282,240	524,160
Share-Losses of Associates	(8,896)	2,897	(5,999)	(4,000)	(4,000)	(8,000)	(4,000)	(4,000)	(8,000)	(4,000)	(4,000)	(8,000)
Loss Before Tax	(33,762)	(591,841)	(625,603)	13,601	27,570	41,171	68,073	405,535	473,607	561,123	663,596	1,224,719
Income Tax Expense	8,111	(1,837)	6,274	(2,244)	(4,549)	(6,793)	(11,232)	(66,913)	(78,145)	(92,585)	(109,493)	(202,079)
Net Loss	(25,651)	(593,678)	(619,329)	11,357	23,021	34,378	56,841	338,621	395,462	468,538	554,103	1,022,641
Non-Controlling Interests	(13,154)	(783)	(13,937)	3,125	3,795	6,920	9,480	22,477	31,957	32,226	38,464	70,690
Net Loss to Shareholders	(12,497)	(592,895)	(605,392)	8,232	19,226	27,458	47,361	316,144	363,505	436,312	515,639	951,951
Basic EPS (cents/sh)	(0.20)	(8.27)	(9.26)	0.11	0.26	0.38	0.65	4.30	4.97	4.84	5.66	10.51
Basic S/O	6,220,834	7,170,199	6,537,558	7,170,199	7,262,599	7,216,399	7,262,599	7,354,999	7,308,799	9,010,231	9,102,631	9,056,431
Diluted EPS (cents/sh)	(2.29)	(8.26)	(9.66)	0.11	0.26	0.38	0.65	4.27	4.94	4.81	5.62	10.43
Diluted S/O	6,220,834	7,174,099	6,537,558	7,188,919	7,291,870	7,240,394	7,308,310	7,412,175	7,360,242	9,075,050	9,172,909	9,123,979
Gross Margin	31.0%	21.8%	26.6%	51.9%	55.8%	54.0%	60.8%	61.6%	61.3%	60.0%	60.1%	60.1%
Net Margin	-4.4%	-232.3%	-112.9%	2.8%	5.8%	4.4%	10.8%	47.2%	32.8%	49.6%	51.4%	50.5%

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	8	89%	0	0%
HOLD	0	0%	0	0%
SELL	0	0%	0	0%
NO RATING	1	11%	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	—

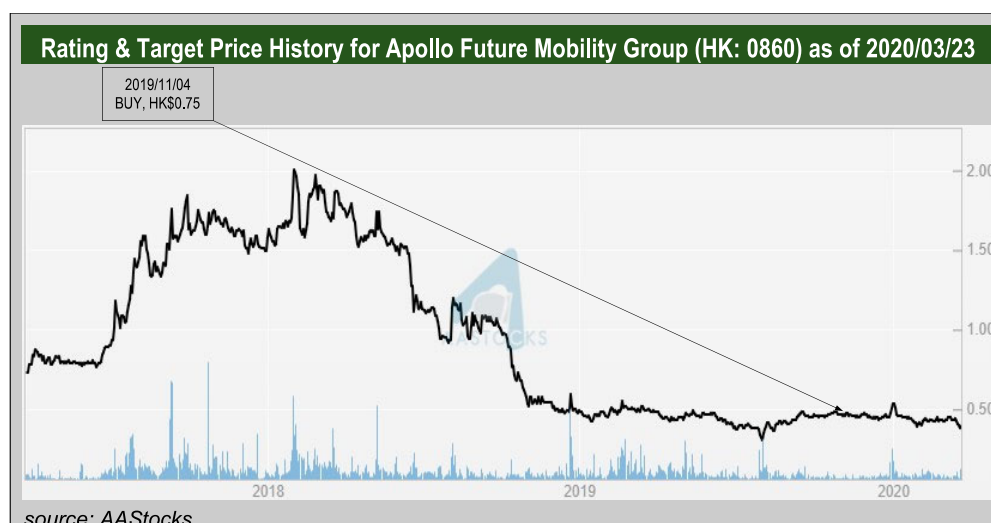
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DISCLOSURES (continued)

Other Disclosures

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