

Great Wall Motor (2333 HK)

4Q22E NP to fall YoY despite better sales mix

We project Great Wall Motor's 4Q22E net profit to decline 4% YoY to RMB 1.7bn amid its sales volume miss. We are of the view that investors could pay more attention to Great Wall's NEV sales volume growth rather than its profitability in FY23E. We think Great Wall has the right strategy to prioritize its NEV market share rather than profitability. We maintain BUY rating, although we prefer Geely (175 HK, BUY) over Great Wall among incumbent Chinese automakers.

■ **4Q22E earnings preview.** Great Wall's 4Q22 sales volume fell 33% YoY, lower than our prior expectation, largely due to its previous high inventories as noted in our earlier reports. We project its revenue in 4Q22E to decline 24% YoY amid better product mix. We also forecast its gross margin in 4Q22E to narrow 3 ppts QoQ to 19.5% due to year-end wage cost and heightened incentive costs. Accordingly, we estimate Great Wall's 4Q22E net profit to drop 4% YoY to RMB 1.7bn. Such profitability could still meet the criteria for its FY22 share option and restricted share schemes, although its sales volume fell short of its original target.

■ **NEV sales would be key to Great Wall in FY23.** We are of the view that investors could pay more attention to Great Wall's NEV sales volume growth rather than its profitability in FY23E given its lagging in electrification. NEVs only accounted for 12% of Great Wall's total sales volume in FY22. The majority of its 18 scheduled new models in 2023 are PHEVs. We think Great Wall has the right strategy to prioritize its NEV market share rather than profitability. We expect its PHEV retail prices to be more competitive in 2023 with the lessons learnt from its too expensive Wey PHEVs in 2022. Therefore, we project NEV sales volume at Great Wall to more than double to 285,000 units in FY23E, or 23% of our projected 1.25mn-unit total sales. We also forecast Great Wall's FY23E net profit to decline 35% YoY to RMB 6.4bn.

■ **Valuation/Key risks.** Great Wall's H-share price has risen about 50% since its low in Oct 2022. We maintain our BUY rating and raise our target price from HK\$ 10.00 to HK\$13.00, which is based on 16x our revised FY23E P/E amid improving investor sentiment toward China auto sector. It is also similar to the valuation that we assign to Geely's businesses excluding Zeekr. Possible positive catalyst for the share price could be sales beat from its upcoming 18 new models. Key risks to our rating and target price include lower sales volume and margins and slower tech transformation than we expect.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	103,308	136,405	134,059	158,077	185,777
YoY growth (%)	7.4	32.0	(1.7)	17.9	17.5
Net income (RMB mn)	5,362	6,726	9,863	6,433	8,980
EPS (RMB)	0.58	0.73	1.07	0.69	0.96
YoY growth (%)	19.2	25.4	46.6	(34.8)	39.6
P/E (x)	15.6	12.1	8.8	13.7	9.9
P/B (x)	1.5	1.3	1.2	1.1	1.0
Yield (%)	3.7	1.3	4.2	2.8	3.8
ROE (%)	9.6	11.3	14.7	8.5	10.9
Net gearing (%)	12	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$ 13.00
(Previous TP	HK\$ 10.00)
Up/Downside	+18.2%
Current Price	HK\$ 11.00

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Stock Data

Mkt Cap (HK\$ mn)	95,130
Avg 3 mths t/o (HK\$ mn)	545
52w High/Low (HK\$)	21.57/6.90
Total Issued Shares (mn)	9,241
Source: Bloomberg	

Shareholding Structure

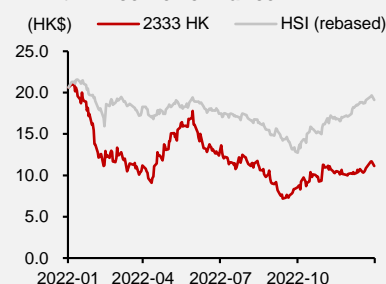
Wei Jianjun	56.4%
Others	43.6%
Source: HKEx	

Share Performance

	Absolute	Relative
1-mth	9.6%	-1.9%
3-mth	30.0%	-20.3%
6-mth	-10.0%	-19.5%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Deloitte

Related Reports

["Great Wall Motor - 3Q22 beat: upcoming new models as key" - 24 Oct 2022](#)

Figure 1: Quarterly results

RMB mn	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22E	YoY	QoQ
Sales volume (units)	325,798	288,591	265,834	396,948	283,500	229,053	283,788	265,210	-33.2%	-6.5%
ASP (RMB)	95,510	106,765	108,597	114,895	118,587	124,490	131,599	130,381	13.5%	-0.9%
Revenue	31,117	30,811	28,869	45,607	33,619	28,515	37,346	34,578	-24.2%	-7.4%
Gross profit	4,707	5,357	4,995	6,979	5,776	5,644	8,392	6,738	-3.4%	-19.7%
R&D expenses	(908)	(950)	(999)	(1,633)	(1,324)	(1,853)	(1,530)	(1,359)	-16.8%	-11.2%
SG&A expenses	(2,715)	(2,928)	(3,535)	(4,547)	(3,553)	(4,053)	(4,414)	(3,881)	-14.6%	-12.1%
Operating profit	1,864	1,995	1,420	1,090	1,341	3,962	2,743	1,453	33.3%	-47.0%
Net profit	1,639	1,889	1,416	1,781	1,634	3,967	2,560	1,703	-4.4%	-33.5%
Gross margin	15.1%	17.4%	17.3%	15.3%	17.2%	19.8%	22.5%	19.5%	4.2 ppt	-3.0 ppt
Operating margin	6.0%	6.5%	4.9%	2.4%	4.0%	13.9%	7.3%	4.2%	1.8 ppt	-3.1 ppt
Net margin	5.3%	6.1%	4.9%	3.9%	4.9%	13.9%	6.9%	4.9%	1.0 ppt	-1.9 ppt

Source: Company data, CMBIGM estimates

Figure 2: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	134,059	158,077	185,777	146,637	155,590	188,184	-8.6%	1.6%	-1.3%
Gross Profit	26,551	26,486	32,299	28,882	27,971	34,027	-8.1%	-5.3%	-5.1%
Operating Profit	9,499	6,368	9,462	10,342	8,247	10,964	-8.2%	-22.8%	-13.7%
Net profit	9,863	6,433	8,980	10,377	8,054	10,227	-4.9%	-20.1%	-12.2%
Gross Margin	19.8%	16.8%	17.4%	19.7%	18.0%	18.1%	0.1 ppt	-1.2 ppt	-0.7 ppt
Operating Margin	7.1%	4.0%	5.1%	7.1%	5.3%	5.8%	0.0 ppt	-1.3 ppt	-0.7 ppt
Net Margin	7.4%	4.1%	4.8%	7.1%	5.2%	5.4%	0.3 ppt	-1.1 ppt	-0.6 ppt

Source: CMBIGM estimates

Figure 3: CMBI estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	134,059	158,077	185,777	151,643	191,446	230,185	-11.6%	-17.4%	-19.3%
Gross Profit	26,551	26,486	32,299	29,451	35,957	44,228	-9.8%	-26.3%	-27.0%
Operating Profit	9,499	6,368	9,462	10,991	11,282	13,905	-13.6%	-43.6%	-32.0%
Net profit	9,863	6,433	8,980	10,155	9,950	12,033	-2.9%	-35.3%	-25.4%
Gross Margin	19.8%	16.8%	17.4%	19.4%	18.8%	19.2%	0.4 ppt	-2.0 ppt	-1.8 ppt
Operating Margin	7.1%	4.0%	5.1%	7.2%	5.9%	6.0%	-0.2 ppt	-1.9 ppt	-0.9 ppt
Net Margin	7.4%	4.1%	4.8%	6.7%	5.2%	5.2%	0.7 ppt	-1.1 ppt	-0.4 ppt

Source: Bloomberg, CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	103,308	136,405	134,059	158,077	185,777
Cost of sales	(85,531)	(114,367)	(107,508)	(131,591)	(153,478)
Gross profit	17,777	22,037	26,551	26,486	32,299
Selling exp.	(4,103)	(5,192)	(5,074)	(5,752)	(6,346)
Admin exp. (ex. R&D)	(2,553)	(4,043)	(4,762)	(4,832)	(5,432)
R&D exp.	(3,067)	(4,490)	(6,066)	(6,411)	(8,157)
Others	(2,301)	(1,944)	(1,150)	(3,123)	(2,901)
Operating profit	5,752	6,369	9,499	6,368	9,462
Non-operating income	494	1,161	1,300	1,000	900
Non-operating exp.	(18)	(47)	(30)	(30)	(30)
Pre-tax profit	6,227	7,482	10,769	7,338	10,332
Tax	(865)	(757)	(915)	(917)	(1,343)
Minority interests	-	1	10	13	(9)
Net profit	5,362	6,726	9,863	6,433	8,980

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Profit before taxation	6,227	7,482	10,769	7,338	10,332
Depreciation/amortization	4,430	5,083	5,968	7,068	8,509
Change in working capital	(4,138)	24,154	(15,449)	6,655	3,176
Others	(1,338)	(1,403)	3,685	1,506	(258)
Net cash from operating	5,181	35,316	4,973	22,566	21,759
Capex	(8,062)	(13,091)	(8,533)	(9,696)	(11,053)
Others	(3,527)	1,916	1,055	2,096	2,304
Net cash from investing	(11,588)	(11,175)	(7,478)	(7,600)	(8,749)
Net borrowings	13,817	(92)	(5,021)	(1,350)	(1,400)
Dividend paid	(2,538)	(5,878)	(1,860)	(2,410)	(3,046)
Others	89	(3,662)	289	500	950
Net cash from financing	11,368	(9,632)	(6,592)	(3,260)	(3,496)
Net change in cash	4,960	14,509	(9,097)	11,707	9,514
Cash at beginning of the year	8,777	13,591	27,908	18,811	30,518
FX effect	(146)	(192)	-	-	-
Cash at the end of the year	13,591	27,908	18,811	30,518	40,032

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Current assets	99,399	108,366	98,683	117,450	136,397
Cash & equivalents	14,588	33,048	23,951	35,658	45,171
Account receivables	58,448	41,497	45,911	51,970	61,077
Inventories	7,498	13,966	11,782	12,618	12,615
Other current assets	18,865	19,854	17,040	17,204	17,534
Non-current assets	54,613	67,042	69,084	71,843	74,440
PP&E	28,609	27,441	27,234	25,957	24,409
Intangibles	5,543	7,091	8,550	10,175	11,925
Equity investments	8,415	9,524	11,268	12,092	13,173
Other non-current assets	12,045	22,986	22,032	23,621	24,933
Total assets	154,011	175,408	167,767	189,293	210,837
Current liabilities	81,166	95,597	77,601	93,891	109,084
Bank borrowings	10,633	8,721	3,000	3,000	3,000
Payables	59,275	74,793	61,854	75,710	88,302
Contract liabilities	8,028	7,388	8,815	10,394	12,215
Other current liabilities	3,230	4,695	3,932	4,787	5,566
Non-current liabilities	15,504	17,683	18,345	16,686	15,049
Bank borrowings	10,777	8,917	9,917	8,917	7,917
Deferred income	3,462	4,113	4,082	4,055	4,031
Other non-current liabilities	1,265	4,652	4,345	3,714	3,100
Total liabilities	96,670	113,280	95,946	110,577	124,133
Share capital	9,176	9,236	9,282	9,340	9,458
Reserves	48,166	52,553	62,245	69,165	77,096
Minority interests	-	4	(6)	(19)	(10)
Shareholders' equity	57,342	62,128	71,822	78,716	86,705
Total equity and liabilities	154,011	175,408	167,767	189,293	210,837

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
Sales of vehicles	89.4	88.9	87.4	88.7	89.6
Sales of parts	5.0	5.0	5.7	4.9	4.4
Sales of moulds	1.2	1.6	1.9	1.9	1.8
Others	4.4	4.4	4.9	4.5	4.2
Growth (%)					
Revenue	7.4	32.0	(1.7)	17.9	17.5
Gross profit	7.6	24.0	20.5	(0.2)	21.9
Operating profit	20.4	10.7	49.1	(33.0)	48.6
Net profit	19.2	25.4	46.6	(34.8)	39.6
Profit & loss ratio (%)					
Gross margin	17.2	16.2	19.8	16.8	17.4
Operating margin	5.6	4.7	7.1	4.0	5.1
Net profit margin	5.2	4.9	7.4	4.1	4.8
Balance sheet ratio					
Net cash (debt)/total equity (x)	(0.1)	0.2	0.2	0.3	0.4
Current ratio (x)	1.2	1.1	1.3	1.3	1.3
Receivable turnover days	207	111	125	120	120
Inventory turnover days	32	45	40	35	30
Payable turnover days	253	239	210	210	210
Profitability (%)					
ROE	9.6	11.3	14.7	8.5	10.9
ROA	4.0	4.1	5.7	3.6	4.5
Per share data (RMB)					
EPS	0.58	0.73	1.07	0.69	0.96
DPS	0.28	0.30	0.48	0.31	0.43

Source: Company data, CMBIGM estimates

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