

# Great Wall Motor (2333 HK)

## Resilient margins pave way for EV transition

**Maintain BUY.** Great Wall's 2Q23 net profit beat our prior forecast mainly due to its GPM of 17.4% (3.7 pts higher than our estimates). Although Great Wall focuses on differentiation in its NEV products to maintain margins, we think it should be more aggressive in NEV sales growth, and such profitability provides room for it. We raise our FY23E net profit to RMB 3.2bn amid resilient GPM in 1H23. We expect Great Wall's NEV market share to surpass the industry average in 4Q23E, which could be a positive catalyst for its share price.

■ **2Q23 earnings beat on higher GPM.** Great Wall's 2Q23 net profit rose to RMB 1.2bn from only RMB 174mn in 1Q23, and also RMB 1.1bn higher than our prior forecast, as its 2Q23 GPM improved 1.3 ppt QoQ to 17.4% despite price war. We attribute such lift to higher contribution from auto parts and exports. Great Wall's Russia subsidiary posted a net profit of RMB 1.4bn in 1H23, although no R&D and headquarters costs booked in such subsidiary. Everything else being equal, we estimate net profit per vehicle for exports could double that in the domestic market in 1H23. The automaker also cut its R&D capitalization ratio in 1H23 vs. FY21-22.

■ **Better-than-expected profitability provides more room for EV transition.** It appears to us that Great Wall's PHEV margins are also higher than our prior expectation, which provides room for higher discounts for the *Lanshan* and *Xiaolong* in a bid to boost sales. In our view, Great Wall still focuses on differentiation in its NEV products, such as the *Menglong*, following its success of the *Dagou* and *Tank* back in 2020, in a bid to maintain reasonable margins. Therefore, we project a slightly lower GPM of 16.4% in 2H23E. Accordingly, we lift our 2H23E net profit by 36% to RMB 1.9bn. We expect 2H23E revenue to surge 35% YoY, aided by a plethora of new models and auto parts. We expect Great Wall's NEV market share to surpass the industry average in 4Q23E, which could be a positive catalyst for its share price.

■ **Earnings/Valuation.** We maintain our FY24E net profit forecast at around RMB 4.9bn, 50% higher than FY23E net profit, given greater economies of scale on NEVs and Great Wall's margin strategy. We maintain our BUY rating and target price of HK\$12.00, based on 20x our FY24E P/E. We believe a higher-than-historical-average valuation is justified, should Great Wall succeed in EV transformation. Key risks to our rating and target price include lower sales volume and margins, especially for NEVs, slower tech transformation than we expect and sector de-rating.

### Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	136,405	137,340	171,453	198,906	233,797
YoY growth (%)	32.0	0.7	24.8	16.0	17.5
Net income (RMB mn)	6,726	8,266	3,245	4,863	7,205
EPS (RMB)	0.73	0.91	0.37	0.55	0.80
YoY growth (%)	25.4	22.9	(60.7)	49.8	48.2
P/E (x)	10.3	9.0	23.0	15.5	10.6
P/B (x)	1.1	1.1	1.1	1.1	1.0
Yield (%)	1.6	2.5	1.5	2.2	3.3
ROE (%)	11.3	13.0	4.9	7.0	9.6
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

### BUY (Maintain)

Target Price	HK\$ 12.00
(Previous TP)	HK\$ 12.00)
Up/Downside	+24.9%
Current Price	HK\$ 9.61

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#### Stock Data

Mkt Cap (HK\$ mn)	81,642
Avg 3 mths t/o (HK\$ mn)	243
52w High/Low (HK\$)	12.66/6.90
Total Issued Shares (mn)	8,496

Source: Bloomberg

#### Shareholding Structure

Wei Jianjun	60.7%
Others	39.3%

Source: HKEx

#### Share Performance

	Absolute	Relative
1-mth	-8.7%	-1.0%
3-mth	18.8%	21.3%
6-mth	-6.4%	3.8%

Source: Bloomberg

#### 12-mth Price Performance



Source: Bloomberg

#### Auditor: Deloitte

#### Related Report

["Great Wall Motor – Surging PHEV sales at cost of FY23E net profit" - 26 Jun 2023](#)

**Figure 1: Quarterly results**

RMB mn	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	YoY	QoQ
Sales volume (units)	283,500	235,025	283,788	265,210	219,968	298,828	27.1%	35.9%
ASP (RMB)	118,587	121,327	131,599	142,753	132,012	136,977	12.9%	3.8%
Revenue	33,619	28,515	37,346	37,860	29,039	40,933	43.5%	41.0%
Gross profit	5,776	5,644	8,392	6,788	4,666	7,124	26.2%	52.7%
R&D expenses	(1,324)	(1,853)	(1,530)	(1,738)	(1,534)	(1,975)	6.6%	28.7%
SG&A expenses	(2,229)	(2,200)	(2,884)	(3,456)	(2,515)	(2,810)	27.7%	11.7%
Operating profit	1,341	3,962	2,743	(79)	(71)	1,296	-67.3%	N/A
<b>Net profit</b>	<b>1,634</b>	<b>3,967</b>	<b>2,560</b>	<b>106</b>	<b>174</b>	<b>1,187</b>	<b>-70.1%</b>	<b>581.3%</b>
Gross margin	17.2%	19.8%	22.5%	17.9%	16.1%	17.4%	-2.4 ppt	1.3 ppt
Operating margin	4.0%	13.9%	7.3%	-0.2%	-0.2%	3.2%	-10.7 ppt	3.4 ppt
Net margin	4.9%	13.9%	6.9%	0.3%	0.6%	2.9%	-11.0 ppt	2.3 ppt

Source: Company data, CMBIGM estimates

**Figure 2: Earnings revision**

RMB mn	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	171,453	198,906	233,797	175,986	194,626	217,797	-2.6%	2.2%	7.3%
Gross Profit	28,389	32,232	37,759	24,795	30,641	36,226	14.5%	5.2%	4.2%
Operating Profit	2,799	4,430	7,171	913	4,419	7,321	206.6%	0.3%	-2.0%
Net profit	3,245	4,863	7,205	1,623	4,800	7,339	100.0%	1.3%	-1.8%
Gross Margin	16.6%	16.2%	16.2%	14.1%	15.7%	16.6%	2.5 ppt	0.5 ppt	-0.5 ppt
Operating Margin	1.6%	2.2%	3.1%	0.5%	2.3%	3.4%	1.1 ppt	0.0 ppt	-0.3 ppt
Net Margin	1.9%	2.4%	3.1%	0.9%	2.5%	3.4%	1.0 ppt	0.0 ppt	-0.3 ppt

Source: CMBIGM estimates

**Figure 3: CMBI estimates vs consensus**

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	171,453	198,906	233,797	172,888	207,161	229,288	-0.8%	-4.0%	2.0%
Gross Profit	28,389	32,232	37,759	30,064	36,595	41,494	-5.6%	-11.9%	-9.0%
Operating Profit	2,799	4,430	7,171	4,903	7,230	8,559	-42.9%	-38.7%	-16.2%
Net profit	3,245	4,863	7,205	6,069	7,543	8,716	-46.5%	-35.5%	-17.3%
Gross Margin	16.6%	16.2%	16.2%	17.4%	17.7%	18.1%	-0.8 ppt	-1.5 ppt	-1.9 ppt
Operating Margin	1.6%	2.2%	3.1%	2.8%	3.5%	3.7%	-1.2 ppt	-1.3 ppt	-0.7 ppt
Net Margin	1.9%	2.4%	3.1%	3.5%	3.6%	3.8%	-1.6 ppt	-1.2 ppt	-0.7 ppt

Source: Bloomberg, CMBIGM estimates

## Financial Summary

### Income

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Revenue</b>	<b>136,405</b>	<b>137,340</b>	<b>171,453</b>	<b>198,906</b>	<b>233,797</b>
Cost of sales	(114,367)	(110,739)	(143,064)	(166,674)	(196,038)
<b>Gross profit</b>	<b>22,037</b>	<b>26,601</b>	<b>28,389</b>	<b>32,232</b>	<b>37,759</b>
Selling exp.	(5,192)	(5,876)	(7,973)	(8,515)	(9,029)
Admin exp. (ex. R&D)	(4,043)	(4,893)	(5,216)	(5,454)	(5,958)
R&D exp.	(4,490)	(6,445)	(8,112)	(8,875)	(9,846)
Others	(1,944)	(1,419)	(4,289)	(4,958)	(5,755)
<b>Operating profit</b>	<b>6,369</b>	<b>7,967</b>	<b>2,799</b>	<b>4,430</b>	<b>7,171</b>
Non-operating income	1,161	886	700	900	900
Non-operating exp.	(47)	(46)	(50)	(50)	(50)
<b>Pre-tax profit</b>	<b>7,482</b>	<b>8,807</b>	<b>3,449</b>	<b>5,280</b>	<b>8,021</b>
Tax	(757)	(554)	(207)	(422)	(802)
Minority interests	1	13	3	5	(14)
<b>Net profit</b>	<b>6,726</b>	<b>8,266</b>	<b>3,245</b>	<b>4,863</b>	<b>7,205</b>

### Cash flow

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Profit before taxation</b>	<b>7,482</b>	<b>8,807</b>	<b>3,449</b>	<b>5,280</b>	<b>8,021</b>
Depreciation/amortization	5,083	6,347	7,858	9,443	11,385
Change in working capital	24,154	(1,909)	778	4,665	3,218
Others	(1,403)	(934)	2,371	1,316	881
<b>Net cash from operating</b>	<b>35,316</b>	<b>12,311</b>	<b>14,456</b>	<b>20,704</b>	<b>23,505</b>
Capex	(13,091)	(16,301)	(11,366)	(11,677)	(11,769)
Others	1,916	5,796	511	2,195	2,192
<b>Net cash from investing</b>	<b>(11,175)</b>	<b>(10,505)</b>	<b>(10,854)</b>	<b>(9,482)</b>	<b>(9,577)</b>
Net borrowings	(92)	8,925	(3,225)	(3,000)	(3,000)
Dividend paid	(5,878)	(1,226)	(1,015)	(1,654)	(2,476)
Others	(3,662)	(10,832)	(1,500)	950	950
<b>Net cash from financing</b>	<b>(9,632)</b>	<b>(3,133)</b>	<b>(5,739)</b>	<b>(3,704)</b>	<b>(4,526)</b>
<b>Net change in cash</b>	<b>14,509</b>	<b>(1,327)</b>	<b>(2,138)</b>	<b>7,518</b>	<b>9,402</b>
Cash at beginning of the year	13,591	27,908	26,899	24,761	32,279
FX effect	(192)	317	-	-	-
<b>Cash at the end of the year</b>	<b>27,908</b>	<b>26,899</b>	<b>24,761</b>	<b>32,279</b>	<b>41,681</b>

### Balance sheet

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Current assets</b>	<b>108,366</b>	<b>107,681</b>	<b>115,807</b>	<b>131,597</b>	<b>154,471</b>
Cash & equivalents	33,048	35,773	33,636	41,154	50,556
Account receivables	41,497	33,919	42,276	49,045	57,649
Inventories	13,966	22,375	23,517	25,115	29,540
Other current assets	19,854	15,614	16,378	16,283	16,726
<b>Non-current assets</b>	<b>67,042</b>	<b>77,677</b>	<b>80,939</b>	<b>83,718</b>	<b>84,658</b>
PP&E	27,441	26,949	25,760	24,302	22,603
Intangibles	7,091	8,197	9,134	9,951	10,447
Equity investments	9,524	10,286	12,200	13,273	14,368
Other non-current assets	22,986	32,245	33,845	36,192	37,240
<b>Total assets</b>	<b>175,408</b>	<b>185,357</b>	<b>196,746</b>	<b>215,315</b>	<b>239,129</b>
<b>Current liabilities</b>	<b>95,597</b>	<b>95,802</b>	<b>107,573</b>	<b>123,405</b>	<b>143,187</b>
Bank borrowings	8,721	10,425	10,000	10,000	10,000
Payables	74,793	71,638	82,311	95,894	112,789
Contract liabilities	7,388	7,753	9,395	10,899	12,811
Other current liabilities	4,695	5,987	5,868	6,612	7,587
<b>Non-current liabilities</b>	<b>17,683</b>	<b>24,339</b>	<b>22,256</b>	<b>20,122</b>	<b>17,978</b>
Bank borrowings	8,917	15,600	14,600	13,600	12,600
Deferred income	4,113	3,585	3,713	3,830	3,937
Other non-current liabilities	4,652	5,154	3,942	2,692	1,441
<b>Total liabilities</b>	<b>113,280</b>	<b>120,141</b>	<b>129,829</b>	<b>143,528</b>	<b>161,164</b>
Share capital	9,236	8,765	8,538	8,656	8,774
Reserves	52,553	56,101	58,103	62,929	69,044
Minority interests	4	15	11	7	21
<b>Shareholders' equity</b>	<b>62,128</b>	<b>65,216</b>	<b>66,917</b>	<b>71,787</b>	<b>77,965</b>
<b>Total equity and liabilities</b>	<b>175,408</b>	<b>185,357</b>	<b>196,746</b>	<b>215,315</b>	<b>239,129</b>

### Key ratios

YE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Sales mix (%)</b>					
Sales of vehicles	88.9	88.8	88.0	88.6	89.2
Sales of parts	5.0	5.8	7.0	7.0	6.8
Sales of moulds	1.6	1.6	1.6	1.4	1.2
Others	4.4	3.8	3.4	3.0	2.7
<b>Growth (%)</b>					
Revenue	32.0	0.7	24.8	16.0	17.5
Gross profit	24.0	20.7	6.7	13.5	17.1
Operating profit	10.7	25.1	(64.9)	58.3	61.9
Net profit	25.4	22.9	(60.7)	49.8	48.2
<b>Profit &amp; loss ratio (%)</b>					
Gross margin	16.2	19.4	16.6	16.2	16.2
Operating margin	4.7	5.8	1.6	2.2	3.1
Net profit margin	4.9	6.0	1.9	2.4	3.1
<b>Balance sheet ratio</b>					
Net cash (debt)/total equity (x)	0.2	0.1	0.1	0.2	0.4
Current ratio (x)	1.1	1.1	1.1	1.1	1.1
Receivable turnover days	111	90	90	90	90
Inventory turnover days	45	74	60	55	55
Payable turnover days	239	236	210	210	210
<b>Profitability (%)</b>					
ROE	11.3	13.0	4.9	7.0	9.6
ROA	4.1	4.6	1.7	2.4	3.2
<b>Per share data (RMB)</b>					
EPS	0.73	0.91	0.37	0.55	0.80
DPS	0.37	0.28	0.17	0.25	0.36

Source: Company data, CMBIGM estimates

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