

Great Wall Motor (2333 HK)

Awaiting new PHEVs

Great Wall Motor's 4Q22 net profit was in line with its preliminary results. Our takeaways from the earnings call are that management has probably learnt some lessons from its previous PHEV failure and will prioritize its NEV market share over profitability as we had expected before. We believe that investors would also pay more attention to its NEV sales growth now than profitability. In our view, the key still lies in the competitiveness of its new PHEV models this year. The upcoming Shanghai Auto Show could be a positive catalyst for its share price, if its new models are well received.

- **Weak profitability in 1Q23E could be largely priced in.** Great Wall's 4Q22 net profit dropped 96% QoQ to RMB 106mn, in line with its preliminary results. Its 4Q22 GPM of 17.9% was lower than our prior expectation, probably due to higher-than-expected year-end bonus. Great Wall's 1Q23 sales volume could be the lowest since 2Q20, based on our estimates, partially due to inventory cuts. Such sales volume, coupled with price war, could result in low net profit in 1Q23E in our view. On the other hand, we think such profit weakness has been largely priced in.
- **NEV sales would be key to Great Wall in FY23E.** Great Wall's earnings call has underscored our prior argument that the company would prioritize NEV market share rather than profitability now. The company plans to introduce over 10 new NEV models this year, with an independent sales channel for Haval's PHEV products. We are of the view that management has probably learnt some lessons from previous PHEV failure given its detailed approaches laid out during the earnings call. We revise down our FY23E sales volume forecast by 0.05mn units to 1.2mn units amid heightened competition. We also project NEVs to account for 25% of its total sales volume in FY23E. We cut our FY23E net profit estimates by 3% to RMB 6.2bn, due to higher marketing and R&D expenses forecasts.
- **Valuation/Key risks.** We maintain our BUY rating and lower target price slightly from HK\$ 13.00 to HK\$12.00, based on 15x (prior 16x) our revised FY23E P/E. We also assign a same valuation to Geely's businesses excluding Zeekr. Investors could keep an eye on the upcoming Shanghai Auto Show in mid Apr, as its new PHEV models' debut, including the *Xiaolong*, could be a positive catalyst. 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	FY22A	FY23E	FY24E
Revenue (RMB mn)	103,308	136,405	137,340	176,585	200,446
YoY growth (%)	7.4	32.0	0.7	28.6	13.5
Net income (RMB mn)	5,362	6,726	8,266	6,242	6,936
EPS (RMB)	0.58	0.73	0.91	0.71	0.78
YoY growth (%)	19.2	25.4	22.9	(24.5)	11.1
P/E (x)	13.9	10.8	9.4	12.1	10.9
P/B (x)	1.3	1.2	1.2	1.1	1.0
Yield (%)	3.7	1.6	2.5	3.0	3.3
ROE (%)	9.6	11.3	13.0	9.2	9.4
Net gearing (%)	12	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$ 12.00
(Previous TP	HK\$ 13.00)
Up/Downside	+23.8%
Current Price	HK\$ 9.69

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Stock Data

Mkt Cap (HK\$ mn)	82,235
Avg 3 mths t/o (HK\$ mn)	516
52w High/Low (HK\$)	17.96/6.90
Total Issued Shares (mn)	8,487
Source: Bloomberg	

Shareholding Structure

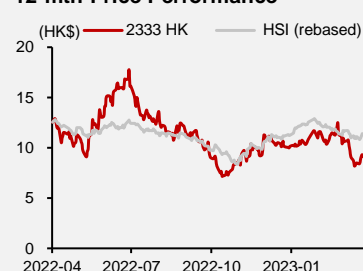
Wei Jianjun	60.7%
Others	39.3%
Source: HKEx	

Share Performance

	Absolute	Relative
1-mth	-8.8%	-8.6%
3-mth	-4.6%	-7.8%
6-mth	8.5%	-10.9%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Deloitte

Related Report

["Great Wall Motor – 4Q22E NP to fall YoY despite better sales mix – 31 Jan 2023"](#)

Figure 1: Quarterly results

RMB mn	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	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	142,753	24.2%	8.5%
Revenue	31,117	30,811	28,869	45,607	33,619	28,515	37,346	37,860	-17.0%	1.4%
Gross profit	4,707	5,357	4,995	6,979	5,776	5,644	8,392	6,788	-2.7%	-19.1%
R&D expenses	(908)	(950)	(999)	(1,633)	(1,324)	(1,853)	(1,530)	(1,738)	6.4%	13.6%
SG&A expenses	(2,715)	(2,928)	(3,535)	(4,547)	(3,553)	(4,053)	(4,414)	(5,194)	14.2%	17.7%
Operating profit	1,864	1,995	1,420	1,090	1,341	3,962	2,743	(79)	N/A	N/A
Net profit	1,639	1,889	1,416	1,781	1,634	3,967	2,560	106	-94.1%	-95.9%
Gross margin	15.1%	17.4%	17.3%	15.3%	17.2%	19.8%	22.5%	17.9%	2.6 ppt	-4.5 ppt
Operating margin	6.0%	6.5%	4.9%	2.4%	4.0%	13.9%	7.3%	-0.2%	-2.6 ppt	-7.6 ppt
Net margin	5.3%	6.1%	4.9%	3.9%	4.9%	13.9%	6.9%	0.3%	-3.6 ppt	-6.6 ppt

Source: Company data, CMBIGM estimates

Figure 2: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY22A	FY23E	FY24E	FY22E	FY23E	FY24E	FY22A	FY23E	FY24E
Revenue	137,340	176,585	200,446	137,351	158,077	185,777	0.0%	11.7%	7.9%
Gross Profit	26,601	31,227	34,728	26,799	26,486	32,299	-0.7%	17.9%	7.5%
Operating Profit	7,967	6,072	6,779	8,009	6,333	9,411	-0.5%	-4.1%	-28.0%
Net profit	8,266	6,242	6,936	8,279	6,403	8,936	-0.2%	-2.5%	-22.4%
Gross Margin	19.4%	17.7%	17.3%	19.5%	16.8%	17.4%	-0.1 ppt	0.9 ppt	-0.1 ppt
Operating Margin	5.8%	3.4%	3.4%	5.8%	4.0%	5.1%	0.0 ppt	-0.6 ppt	-1.7 ppt
Net Margin	6.0%	3.5%	3.5%	6.0%	4.1%	4.8%	0.0 ppt	-0.5 ppt	-1.3 ppt

Source: CMBIGM estimates

Figure 3: CMBI estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY22A	FY23E	FY24E	FY22E	FY23E	FY24E	FY22A	FY23E	FY24E
Revenue	137,340	176,585	200,446	147,308	187,316	222,302	-6.8%	-5.7%	-9.8%
Gross Profit	26,601	31,227	34,728	28,401	33,704	41,310	-6.3%	-7.3%	-15.9%
Operating Profit	7,967	6,072	6,779	10,123	10,281	12,787	-21.3%	-40.9%	-47.0%
Net profit	8,266	6,242	6,936	9,376	9,106	10,950	-11.8%	-31.5%	-36.7%
Gross Margin	19.4%	17.7%	17.3%	19.3%	18.0%	18.6%	0.1 ppt	-0.3 ppt	-1.3 ppt
Operating Margin	5.8%	3.4%	3.4%	6.9%	5.5%	5.8%	-1.1 ppt	-2.1 ppt	-2.4 ppt
Net Margin	6.0%	3.5%	3.5%	6.4%	4.9%	4.9%	-0.3 ppt	-1.3 ppt	-1.5 ppt

Source: Bloomberg, CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22A	FY23E	FY24E
Revenue	103,308	136,405	137,340	176,585	200,446
Cost of sales	(85,531)	(114,367)	(110,739)	(145,357)	(165,718)
Gross profit	17,777	22,037	26,601	31,227	34,728
Selling exp.	(4,103)	(5,192)	(5,876)	(6,711)	(7,384)
Admin exp. (ex. R&D)	(2,553)	(4,043)	(4,893)	(5,510)	(6,017)
R&D exp.	(3,067)	(4,490)	(6,445)	(8,204)	(9,778)
Others	(2,301)	(1,944)	(1,419)	(4,731)	(4,769)
Operating profit	5,752	6,369	7,967	6,072	6,779
Non-operating income	494	1,161	886	900	900
Non-operating exp.	(18)	(47)	(46)	(50)	(50)
Pre-tax profit	6,227	7,482	8,807	6,922	7,629
Tax	(865)	(757)	(554)	(692)	(687)
Minority interests	-	1	13	12	(7)
Net profit	5,362	6,726	8,266	6,242	6,936

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22A	FY23E	FY24E
Profit before taxation	6,227	7,482	8,807	6,922	7,629
Depreciation/amortization	4,430	5,083	6,347	7,922	9,646
Change in working capital	(4,138)	24,154	(1,909)	329	4,205
Others	(1,338)	(1,403)	(934)	3,924	499
Net cash from operating	5,181	35,316	12,311	19,097	21,979
Capex	(8,062)	(13,091)	(16,301)	(12,764)	(13,686)
Others	(3,527)	1,916	5,796	970	2,178
Net cash from investing	(11,588)	(11,175)	(10,505)	(11,794)	(11,508)
Net borrowings	13,817	(92)	8,925	(3,225)	(3,000)
Dividend paid	(2,538)	(5,878)	(1,226)	(2,321)	(2,532)
Others	89	(3,662)	(10,832)	(1,500)	950
Net cash from financing	11,368	(9,632)	(3,133)	(7,046)	(4,582)
Net change in cash	4,960	14,509	(1,327)	258	5,890
Cash at beginning of the year	8,777	13,591	27,908	26,899	27,156
FX effect	(146)	(192)	317	-	-
Cash at the end of the year	13,591	27,908	26,899	27,156	33,046

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22A	FY23E	FY24E
Current assets	99,399	108,366	107,681	118,691	132,082
Cash & equivalents	14,588	33,048	35,773	36,031	41,921
Account receivables	58,448	41,497	33,919	43,541	49,425
Inventories	7,498	13,966	22,375	23,894	24,971
Other current assets	18,865	19,854	15,614	15,224	15,765
Non-current assets	54,613	67,042	77,677	82,836	87,810
PP&E	28,609	27,441	26,949	25,760	24,302
Intangibles	5,543	7,091	8,197	9,363	10,607
Equity investments	8,415	9,524	10,286	12,064	13,137
Other non-current assets	12,045	22,986	32,245	35,649	39,765
Total assets	154,011	175,408	185,357	201,527	219,892
Current liabilities	81,166	95,597	95,802	109,266	122,902
Bank borrowings	10,633	8,721	10,425	10,000	10,000
Payables	59,275	74,793	71,638	83,630	95,345
Contract liabilities	8,028	7,388	7,753	9,676	10,983
Other current liabilities	3,230	4,695	5,987	5,960	6,574
Non-current liabilities	15,504	17,683	24,339	22,256	20,122
Bank borrowings	10,777	8,917	15,600	14,600	13,600
Deferred income	3,462	4,113	3,585	3,713	3,830
Other non-current liabilities	1,265	4,652	5,154	3,942	2,692
Total liabilities	96,670	113,280	120,141	131,522	143,024
Share capital	9,176	9,236	8,765	8,538	8,656
Reserves	48,166	52,553	56,101	61,201	68,008
Minority interests	-	4	15	2	9
Shareholders' equity	57,342	62,128	65,216	70,006	76,868
Total equity and liabilities	154,011	175,408	185,357	201,527	219,892

Key ratios

YE 31 Dec	FY20A	FY21A	FY22A	FY23E	FY24E
Sales mix (%)					
Sales of vehicles	89.4	88.9	88.8	90.7	91.6
Sales of parts	5.0	5.0	5.8	4.8	4.1
Sales of moulds	1.2	1.6	1.6	1.4	1.2
Others	4.4	4.4	3.8	3.1	3.0
Growth (%)					
Revenue	7.4	32.0	0.7	28.6	13.5
Gross profit	7.6	24.0	20.7	17.4	11.2
Operating profit	20.4	10.7	25.1	(23.8)	11.6
Net profit	19.2	25.4	22.9	(24.5)	11.1
Profit & loss ratio (%)					
Gross margin	17.2	16.2	19.4	17.7	17.3
Operating margin	5.6	4.7	5.8	3.4	3.4
Net profit margin	5.2	4.9	6.0	3.5	3.5
Balance sheet ratio					
Net cash (debt)/total equity (x)	(0.1)	0.2	0.1	0.2	0.2
Current ratio (x)	1.2	1.1	1.1	1.1	1.1
Receivable turnover days	207	111	90	90	90
Inventory turnover days	32	45	74	60	55
Payable turnover days	253	239	236	210	210
Profitability (%)					
ROE	9.6	11.3	13.0	9.2	9.4
ROA	4.0	4.1	4.6	3.2	3.3
Per share data (RMB)					
EPS	0.58	0.73	0.91	0.71	0.78
DPS	0.28	0.37	0.28	0.32	0.35

Source: Company data, CMBIGM estimates

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