

Great Wall Motor (2333 HK)

New PHEV models appears to be more exciting

Great Wall Motor's 1Q23 net profit was largely in line with our prior expectation. We believe the WEY *Lanshan* PHEV is well received, especially with its lower-than-peer pricing. That could make management follow the same pricing strategy for the upcoming Haval *Xiaolong*, in our view. We believe the *Xiaolong* shares a large amount of components with Great Wall's existing models, which could provide room for competitive pricing strategy. We are of the view that management has fully realized the importance of NEV to Great Wall's future, according to its 1Q23 earnings call.

- 1Q23 earnings largely in line.** Great Wall's 1Q23 revenue was 2% higher than our prior forecast. GPM in 1Q23 fell 1.1 pts YoY to 16.1%, in line with our prior estimates, which we consider as resilient given lower sales volume and ongoing price war. SG&A expenses in 1Q23 were higher than our forecast, probably due to its support for dealers to build new PHEV sales network and rising amortization from previous capitalized R&D investments. Its net profit of RMB 174mn in 1Q23 was slightly higher than our projection of RMB 109mn.
- Positive feedback from *Lanshan* could lead to a more competitive pricing strategy for *Xiaolong*.** We believe the WEY *Lanshan* PHEV has been well received, based on our Shanghai Auto Show visit, partially due to its lower-than-peer pricing. That could make management follow the same pricing strategy for the upcoming Haval *Xiaolong*. We believe the *Xiaolong* shares a large amount of components with Great Wall's existing models to lower costs, based on our observation from the Shanghai Auto Show. That provides room for its competitive pricing strategy.
- Earnings/Valuation.** We cut our FY23E GPM slightly, as we believe Great Wall's NEV pricing could be more aggressive than we had expected. We also raised SG&A expenses a bit to reflect its cash support for dealers' new PHEV network build-up. Accordingly, we cut our FY23E net profit by 8% to RMB 5.7bn. We have also added our forecasts for FY25E.

We maintain our BUY rating and target price of HK\$12.00, based on 16x (prior 15x) our revised FY23E P/E. We assign a slightly higher target valuation, as a plethora of upcoming new NEV models at Great Wall could be more exciting than investors had expected. Key risks to our rating and target price include lower sales volume and margins, 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	176,585	200,446	224,613
YoY growth (%)	32.0	0.7	28.6	13.5	12.1
Net income (RMB mn)	6,726	8,266	5,728	6,140	8,289
EPS (RMB)	0.73	0.91	0.65	0.69	0.92
YoY growth (%)	25.4	22.9	(30.7)	7.2	35.0
P/E (x)	10.3	8.9	12.5	11.8	8.8
P/B (x)	1.1	1.1	1.0	1.0	0.9
Yield (%)	1.6	2.5	2.8	2.9	3.9
ROE (%)	11.3	13.0	8.5	8.4	10.4
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	+29.9%
Current Price	HK\$ 9.24

China Auto Sector

SHI Ji, CFA
 (852) 3761 8728
 shiji@cmbi.com.hk

DOU Wenjing, CFA
 (852) 6939 4751
 douwenjing@cmbi.com.hk

GU Sijie
 jiasongu@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	78,410
Avg 3 mths t/o (HK\$ mn)	509
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%

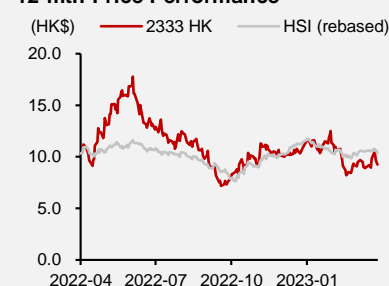
Source: HKEX

Share Performance

	Absolute	Relative
1-mth	4.6%	0.4%
3-mth	-14.8%	-5.8%
6-mth	22.2%	-1.6%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Deloitte

Related Report

["Great Wall Motor – Awaiting new PHEVs" - 2 Apr 2023](#)

Figure 1: Quarterly results

RMB mn	1Q22	2Q22	3Q22	4Q22	1Q23	YoY	QoQ
Sales volume (units)	283,500	229,053	283,788	265,210	219,968	-22.4%	-17.1%
ASP (RMB)	118,587	124,490	131,599	142,753	132,012	11.3%	-7.5%
Revenue	33,619	28,515	37,346	37,860	29,039	-13.6%	-23.3%
Gross profit	5,776	5,644	8,392	6,788	4,666	-19.2%	-31.3%
R&D expenses	(1,324)	(1,853)	(1,530)	(1,738)	(1,534)	15.9%	-11.7%
SG&A expenses	(3,553)	(4,053)	(4,414)	(5,194)	(4,049)	14.0%	-22.1%
Operating profit	1,341	3,962	2,743	(79)	(71)	N/A	N/A
Net profit	1,634	3,967	2,560	106	174	-89.3%	64.9%
Gross margin	17.2%	19.8%	22.5%	17.9%	16.1%	-1.1 ppt	-1.9 ppt
Operating margin	4.0%	13.9%	7.3%	-0.2%	-0.2%	-4.2 ppt	0.0 ppt
Net margin	4.9%	13.9%	6.9%	0.3%	0.6%	-4.3 ppt	0.3 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	176,585	200,446	224,613	176,585	200,446	N/A	0.0%	0.0%	N/A
Gross Profit	30,399	33,978	40,028	31,227	34,728	N/A	-2.7%	-2.2%	N/A
Operating Profit	5,370	5,890	8,378	6,072	6,779	N/A	-11.6%	-13.1%	N/A
Net profit	5,728	6,140	8,289	6,242	6,936	N/A	-8.2%	-11.5%	N/A
Gross Margin	17.2%	17.0%	17.8%	17.7%	17.3%	N/A	-0.5 ppt	-0.4 ppt	N/A
Operating Margin	3.0%	2.9%	3.7%	3.4%	3.4%	N/A	-0.4 ppt	-0.4 ppt	N/A
Net Margin	3.2%	3.1%	3.7%	3.5%	3.5%	N/A	-0.3 ppt	-0.4 ppt	N/A

Source: CMBIGM estimates

Figure 3: CMBI estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	176,585	200,446	224,613	187,316	222,302	N/A	-5.7%	-9.8%	N/A
Gross Profit	30,399	33,978	40,028	33,704	41,310	N/A	-9.8%	-17.8%	N/A
Operating Profit	5,370	5,890	8,378	10,281	12,787	N/A	-47.8%	-53.9%	N/A
Net profit	5,728	6,140	8,289	9,106	10,950	N/A	-37.1%	-43.9%	N/A
Gross Margin	17.2%	17.0%	17.8%	18.0%	18.6%	N/A	-0.8 ppt	-1.6 ppt	N/A
Operating Margin	3.0%	2.9%	3.7%	5.5%	5.8%	N/A	-2.4 ppt	-2.8 ppt	N/A
Net Margin	3.2%	3.1%	3.7%	4.9%	4.9%	N/A	-1.6 ppt	-1.9 ppt	N/A

Source: Bloomberg, CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	136,405	137,340	176,585	200,446	224,613
Cost of sales	(114,367)	(110,739)	(146,186)	(166,468)	(184,585)
Gross profit	22,037	26,601	30,399	33,978	40,028
Selling exp.	(5,192)	(5,876)	(7,211)	(7,784)	(8,362)
Admin exp. (ex. R&D)	(4,043)	(4,893)	(5,510)	(6,017)	(6,653)
R&D exp.	(4,490)	(6,445)	(8,204)	(9,487)	(11,132)
Others	(1,944)	(1,419)	(4,104)	(4,799)	(5,503)
Operating profit	6,369	7,967	5,370	5,890	8,378
Non-operating income	1,161	886	900	900	900
Non-operating exp.	(47)	(46)	(50)	(50)	(50)
Pre-tax profit	7,482	8,807	6,220	6,740	9,228
Tax	(757)	(554)	(498)	(607)	(923)
Minority interests	1	13	6	6	(17)
Net profit	6,726	8,266	5,728	6,140	8,289

Cash flow

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Profit before taxation	7,482	8,807	6,220	6,740	9,228
Depreciation/amortization	5,083	6,347	7,922	9,655	11,844
Change in working capital	24,154	(1,909)	787	4,181	1,123
Others	(1,403)	(934)	3,165	1,305	440
Net cash from operating	35,316	12,311	18,094	21,881	22,634
Capex	(13,091)	(16,301)	(12,764)	(13,986)	(14,585)
Others	1,916	5,796	511	2,195	2,192
Net cash from investing	(11,175)	(10,505)	(12,252)	(11,791)	(12,393)
Net borrowings	(92)	8,925	(3,225)	(3,000)	(3,000)
Dividend paid	(5,878)	(1,226)	(2,112)	(2,218)	(3,052)
Others	(3,662)	(10,832)	(1,500)	950	950
Net cash from financing	(9,632)	(3,133)	(6,836)	(4,268)	(5,102)
Net change in cash	14,509	(1,327)	(994)	5,821	5,140
Cash at beginning of the year	13,591	27,908	26,899	25,904	31,726
FX effect	(192)	317	-	-	-
Cash at the end of the year	27,908	26,899	25,904	31,726	36,865

Balance sheet

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Current assets	108,366	107,681	118,789	131,389	145,445
Cash & equivalents	33,048	35,773	34,779	40,600	45,740
Account receivables	41,497	33,919	43,541	49,425	55,384
Inventories	13,966	22,375	24,031	25,084	27,814
Other current assets	19,854	15,614	16,438	16,279	16,507
Non-current assets	67,042	77,677	82,972	88,238	91,926
PP&E	27,441	26,949	25,760	24,302	22,603
Intangibles	7,091	8,197	9,363	10,640	11,797
Equity investments	9,524	10,286	12,200	13,273	14,368
Other non-current assets	22,986	32,245	35,649	40,024	43,157
Total assets	175,408	185,357	201,761	219,627	237,371
Current liabilities	95,597	95,802	109,776	123,364	135,636
Bank borrowings	8,721	10,425	10,000	10,000	10,000
Payables	74,793	71,638	84,107	95,776	106,199
Contract liabilities	7,388	7,753	9,676	10,983	12,308
Other current liabilities	4,695	5,987	5,993	6,604	7,129
Non-current liabilities	17,683	24,339	22,256	20,122	17,978
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
Total liabilities	113,280	120,141	132,032	143,486	153,613
Share capital	9,236	8,765	8,538	8,656	8,774
Reserves	52,553	56,101	60,918	67,287	74,838
Minority interests	4	15	9	3	19
Shareholders' equity	62,128	65,216	69,730	76,141	83,757
Total equity and liabilities	175,408	185,357	201,761	219,627	237,371

Key ratios

YE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Sales mix (%)					
Sales of vehicles	88.9	88.8	90.7	91.6	92.0
Sales of parts	5.0	5.8	4.8	4.1	4.0
Sales of moulds	1.6	1.6	1.4	1.2	1.2
Others	4.4	3.8	3.1	3.0	2.8
Growth (%)					
Revenue	32.0	0.7	28.6	13.5	12.1
Gross profit	24.0	20.7	14.3	11.8	17.8
Operating profit	10.7	25.1	(32.6)	9.7	42.2
Net profit	25.4	22.9	(30.7)	7.2	35.0
Profit & loss ratio (%)					
Gross margin	16.2	19.4	17.2	17.0	17.8
Operating margin	4.7	5.8	3.0	2.9	3.7
Net profit margin	4.9	6.0	3.2	3.1	3.7
Balance sheet ratio					
Net cash (debt)/total equity (x)	0.2	0.1	0.1	0.2	0.3
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
Profitability (%)					
ROE	11.3	13.0	8.5	8.4	10.4
ROA	4.1	4.6	3.0	2.9	3.6
Per share data (RMB)					
EPS	0.73	0.91	0.65	0.69	0.92
DPS	0.37	0.28	0.29	0.31	0.42

Source: Company data, CMBIGM estimates

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CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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