

Great Wall Motor (2333 HK)

Niche market brings incremental sales volume

GWM released its 1H20 results. 1H20 top-line declined by 13% YoY to RMB35.9bn whereas bottom-line dropped by 24% to RMB1.15bn. EPS has decreased by 25% to RMB0.12. It implies the top-line/bottom-line increased by 25%/142% YoY in 2Q20.

- Strong performance in 2Q20.** Unit revenue per vehicle increased by 7% to RMB96K while unit profit per vehicle increased by 107% to RMB7.3K in 2Q20. The outstanding performance was mainly due to 1) the sales volume growth of 17% YoY/63% QoQ in 2Q20; 2) the increase in ASP/GPM given the increase in the proportion of high-end models (ie. GWM Pao/ Haval H9); 3) the RMB200mn FX gains given the appreciation of RUB; 4) consistent enforcement of COGS and expense control measures.
- New product cycle in the short-term.** GWM will launch a new product cycle since 3Q20E with new models rollout (Haval H6, Da Gou, WEY Tan Ke 300, etc). Especially, Da Gou and Tan Ke 300 will target a new niche market, which will bring incremental sales volume. We expect a new product cycle together with its excellent pickup truck products will support the 2H20E performance. We forecast GWM will achieve a +11% sales volume growth rate in 2H20E. The new models (Da Gou/Tan Ke 300) will also have a higher price than that of most existing products, which will lead to an even higher ASP in 2H20E. Given the economies of scale brought by sales growth and the rise in the common use of parts/components under the new platform (60-80%), we expect GPM will further increase. In addition, we expect excellent expense control will last into the rest of the year. In 2021E, GWM will launch 10 new models based on its new platform, maintaining its sales momentum.
- “Tech-based mobility company + global strategy” in the long-term.** On Jul 20, GWM released 3 technology platform/brands (Ning Meng 檸檬, Tan Ke 坦克, Ka Fei 咖啡) to continue to enhance product power. GWM focuses on ‘ABCDEFGH (ADAS / Battery / Cloud / Digitalization / Ecology / FaceID / 5G / Hydrogen)’ to develop cutting-edge technology, which will further enhance product competitiveness in the future. In the meanwhile, GWM announced its transformation into a global tech-based mobility company. The Company also sticks to its global strategy which can be confirmed by 1) Russian plant is in a capacity ramp-up period; and 2) the acquisition of GM's India and Thailand plants in early 2020 is expected to be delivered in late 2020/early 2021. Therefore, we believe the above two wheels will support GWM's long-term performance.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	99,230	96,211	95,322	107,556	115,901
YoY growth (%)	-1.92%	-3.04%	-0.92%	12.83%	7.76%
Net income (RMB mn)	5,207	4,497	4,708	6,639	7,745
EPS (RMB)	0.57	0.49	0.51	0.72	0.84
YoY growth (%)	4%	-14%	4%	41%	17%
Consensus EPS(RMB)	0.57	0.49	0.45	0.59	0.65
P/E (x)	12.32	14.27	13.70	9.72	8.33
P/B (x)	1.22	1.18	1.14	1.07	1.00
Yield (%)	4.13%	3.56%	3.65%	5.15%	6.00%
ROE (%)	10.24%	8.41%	8.50%	11.35%	12.35%
Net gearing (%)	14%	net cash	net cash	net cash	net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$9.4
(Previous TP)	HK\$7.5)
Up/Downside	+18.7%
Current Price	HK\$7.9

China Auto Sector

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Stock Data

Mkt Cap (HK\$ mn)	117,948
Avg 3 mths t/o (HK\$ mn)	272.76
52w High/Low (HK\$)	8.6/3.65
Equity share - 2333.HK	3,100
Equity share - 601633.SH	6,077

Source: Bloomberg

Shareholding Structure

Baoding Innovation Great Wall Asset Management Company Limited	84.17%
Citigroup Inc.	6.99%
BlackRock Inc.	6.04%

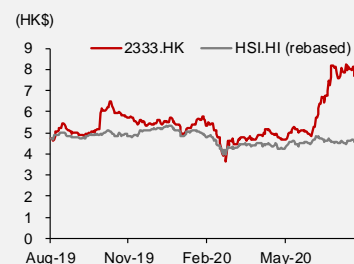
Source: HKEX

Share Performance

	Absolute	Relative
1-mth	-2.8%	-4.9%
3-mth	69.1%	52.8%
6-mth	47.3%	51.4%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Deloitte Touche Tohmatsu

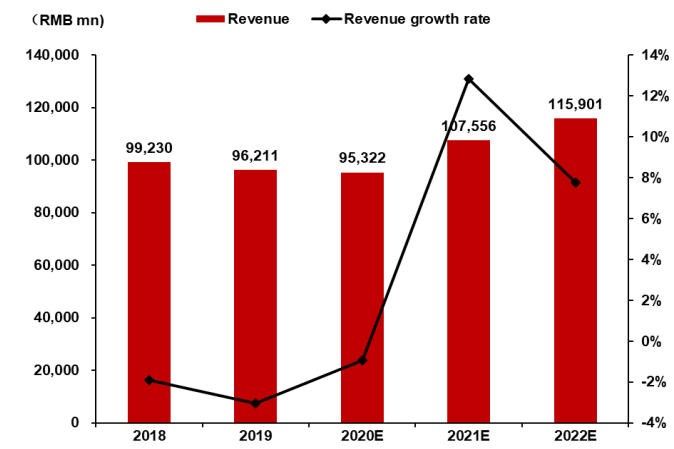
Related Reports

- “Great Wall Motor (2333 HK) – New product cycle underpins the performance” – 17 Jul 2020
- “Great Wall Motor (2333 HK) – Wait for the turning point in 2H20E” – 2 Apr 2020

- **GWM's NEV strategy has gradually formed.** In the mass-product market, GWM has iQ/Bai Mao/Hei Mao, which is based on the ME platform. Hao Mao, based on the Ning Meng&Ka Fei platform, will be launched in Oct 2020 and targets the mid-end market. GWM also has a mid-end model in the pipeline for the next year. Spotlight (光東汽车), a JV with BMW, will be put into production in 2022E, leading the upward brand stretching. By launching Ning Meng/Tan Ke platforms, GWM is capable of producing BEV/PHEV/HEV and various classes of NEV. We believe that GWM's NEV will achieve steady growth in the future.
- **We raise our bottom-line forecast to RMB4.7bn in 2020E to reflect the excellent 2Q20 results.** Our revised NP forecast suggests that GWM's bottom-line will grow 20% YoY in 2H20E. At the same time, we revised up our NP forecast to RMB6.6bn in 2021E to reflect a strong product cycle and the benefit from new platforms. We raise our TP to HK\$9.4 (based on 13.5x average 2020E/21E P/E) with an upside of 18.7% from initial TP HK\$7.5 (based on initial 13.5x average 2020E/21E P/E). Reiterate BUY.

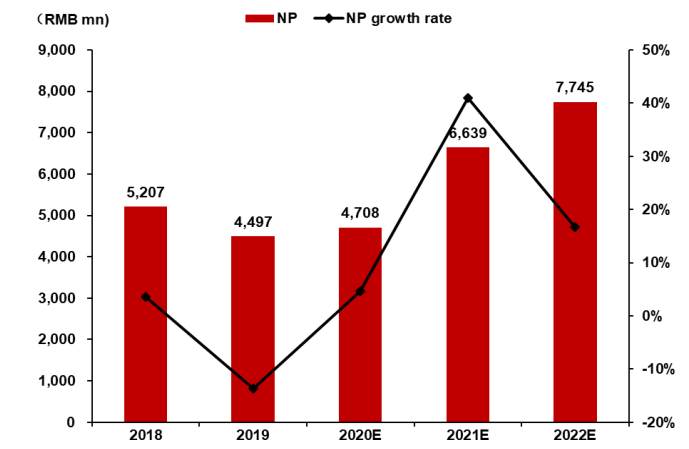
Focus chart

Figure 1: Revenue forecast



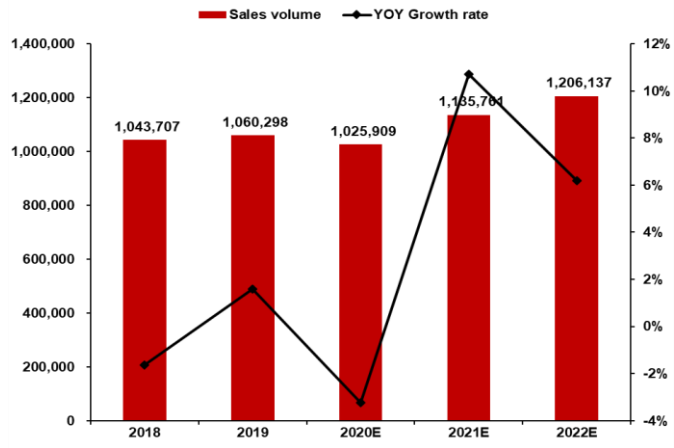
Source: Company data, CMBIS estimates

Figure 2: Bottom-line forecast



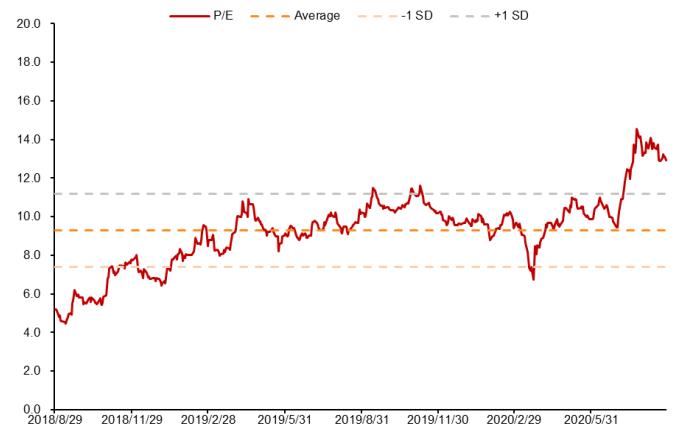
Source: Company data, CMBIS estimates

Figure 3: Sales volume forecast



Source: Company data, CMBIS estimates

Figure 4: PE Chart



Source: Bloomberg, CMBIS

Figure 5: Haval Da Gou



Source: Autohome, CMBIS

Figure 6: WEY Tan Ke 300



Source: Autohome, CMBIS

Earnings Revision

Figure 7: Earnings revision

(RMB mn)	New		Old		Change (%)	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	95,322	107,556	94,951	105,719	0%	2%
Gross profit	15,972	18,971	15,687	18,616	2%	2%
Operating profit	4,988	7,213	4,125	5,833	21%	24%
Net profit	4,708	6,639	3,682	5,209	28%	27%
EPS (RMB)	0.51	0.72	0.40	0.57	28%	27%
GPM	16.76%	17.64%	16.52%	17.61%	0.2 ppt	0.0 ppt
OPM	5.23%	6.71%	4.34%	5.52%	0.9 ppt	1.2 ppt
NPM	4.94%	6.17%	3.88%	4.93%	1.1 ppt	1.2 ppt

Source: CMBIS estimates

Figure 8: CMBIS estimates vs consensus

(RMB mn)	CMBIS		Consensus		Diff (%)	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	95,322	107,556	92,520	105,310	3%	2%
Gross profit	15,972	18,971	15,245	18,053	5%	5%
Operating profit	4,988	7,213	4,491	5,793	11%	25%
Net profit	4,708	6,639	4,107	5,324	15%	25%
EPS (RMB)	0.51	0.72	0.45	0.59	14%	23%
GPM	16.76%	17.64%	16.48%	17.14%	0.3 ppt	0.5 ppt
OPM	5.23%	6.71%	5.12%	5.84%	0.1 ppt	0.9 ppt
NPM	4.94%	6.17%	4.44%	5.06%	0.5 ppt	1.1 ppt

Source: Bloomberg, CMBIS estimates

Figure 9: Revenue breakdown

(RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Sales of automobiles	91,597	86,251	85,540	96,593	103,604
...YoY	-5%	-6%	-1%	13%	7%
Automobile parts and components	6,203	8,857	9,782	10,962	12,297
...YoY	38%	43%	10%	12%	12%
Parts and components	3,746	4,293	4,980	5,727	6,586
...YoY	18%	15%	16%	15%	15%
Mold and others	461	652	665	685	706
...YoY	-4%	41%	2%	3%	3%
Services	957	2,585	2,611	2,872	3,159
...YoY	311%	170%	1%	10%	10%
Other	1,039	1,327	1,526	1,679	1,847
...YoY	69%	28%	15%	10%	10%
Interest income	1,389	1,031	0	0	0
...YoY	106%	-26%	-100%	NA	NA
Total	99,189	96,139	95,322	107,556	115,901
...YoY	-2%	-3%	-1%	13%	8%

Source: Company data, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	99,230	96,211	95,322	107,556	115,901
Cost of sales	(81,864)	(80,023)	(79,350)	(88,585)	(94,606)
Gross profit	17,366	16,188	15,972	18,971	21,295
Taxes and levies	(3,627)	(3,169)	(3,050)	(3,549)	(3,941)
S&D expenses	(4,575)	(3,897)	(3,813)	(4,345)	(4,674)
Admin expenses	(1,676)	(1,955)	(1,811)	(2,022)	(2,156)
R&D expenses	(1,743)	(2,716)	(3,050)	(3,012)	(3,303)
Finance expenses	494	351	(44)	(38)	(11)
Credit/asset impairment	(318)	(553)	(534)	(387)	(417)
Other income	176	543	572	538	580
Share of PL of JV	0	0	0	0	0
Investment income	219	16	763	1,076	1,159
G/L from disposal	(82)	(30)	(16)	(18)	(19)
Non-operating income	253	342	374	433	511
Non-operating expenses	(8)	(18)	(12)	(14)	(21)
Profit before income tax	6,477	5,101	5,350	7,631	9,006
Income tax expense	(1,229)	(570)	(642)	(992)	(1,261)
Profit for the year	5,248	4,531	4,708	6,639	7,745
Less: MI	40	34	0	0	0
Net Profit	5,207	4,497	4,708	6,639	7,745

Cash flow

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Net income	5,207	4,497	4,708	6,639	7,745
D&A	2,878	3,428	3,652	3,882	4,224
Change in working capital	41,536	2,301	1,016	3,027	2,231
Others	(29,923)	(3,261)	(7,493)	(1,632)	(5,573)
Net cash from operating activities	19,698	6,965	1,882	11,916	8,627
Capex & investments	(4,216)	(4,391)	(4,205)	(4,659)	(4,646)
Associated companies	-	-	-	-	-
Others	(5,824)	(1,298)	-	-	-
Net cash from investing activities	(10,040)	(5,689)	(4,205)	(4,659)	(4,646)
Equity raised	-	-	-	-	-
Change of Debts	1,496	(12,513)	(281)	(129)	(208)
Dividend paid	(2,647)	(2,282)	(2,354)	(3,319)	(3,872)
Others	(5,350)	14,699	-	-	-
Net cash from financing activities	(6,501)	(95)	(2,634)	(3,449)	(4,080)
Net change in cash	3,157	1,181	(4,957)	3,808	(99)
Cash at the beginning	4,831	7,682	9,723	4,766	8,574
Exchange difference	(306)	861	-	-	-
Cash at the end	7,682	9,723	4,766	8,574	8,475
Less: pledged cash	-	-	-	-	-

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	45,674	44,593	46,751	48,500	49,675
Fixed asset	28,993	29,843	30,297	31,075	31,496
Intangible assets	3,391	4,710	4,848	4,972	5,039
Interest in JV/associate	-	-	-	-	-
Other non-current assets	13,290	10,040	11,606	12,454	13,140
Current assets	66,126	68,502	61,567	69,089	74,403
Cash	7,682	9,723	4,766	8,574	8,475
Account receivable	3,343	3,193	2,645	2,953	3,154
Inventory	4,445	6,237	6,612	7,703	8,227
Other current assets	50,656	49,348	47,543	49,859	54,548
Current liabilities	54,618	54,601	47,737	52,530	54,562
Borrowings	12,800	1,180	606	592	580
Account payables	29,401	35,461	31,740	35,434	37,842
Other payables	9,866	16,447	14,108	14,520	13,618
Tax payables	2,551	1,512	1,284	1,984	2,522
Non-current liabilities	4,493	4,097	4,104	4,439	4,629
Borrowings	2,158	1,265	1,593	1,444	1,248
Provisions	0	0	0	0	0
Deferred income tax	253	489	128	198	252
Others	2,082	2,343	2,383	2,796	3,129
Shareholders' equity	52,525	54,398	56,420	60,560	64,823
Minority Interest	164	0	56	61	65
Total net assets	52,689	54,398	56,477	60,621	64,887

Key ratios

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
Automobiles	92%	90%	90%	90%	89%
Parts and components	6%	9%	10%	10%	11%
Interest income	1%	1%	0%	0%	0%
Total	100%	100%	100%	100%	100%
P&L ratios (%)					
Gross profit margin	18%	17%	17%	18%	18%
Pre-tax margin	7%	5%	6%	7%	8%
Net margin	5%	5%	5%	6%	7%
Effective tax rate	19%	11%	12%	13%	14%
Balance sheet ratios					
Current ratio (x)	1.21	1.25	1.29	1.32	1.36
Quick ratio (x)	0.26	0.32	0.25	0.30	0.29
Cash ratio (x)	0.14	0.18	0.10	0.16	0.16
Debtors turnover days	12	12	12	12	12
Total debt / total equity	112%	108%	92%	94%	91%
Net debt / equity ratio (%)	14%	net cash	net cash	net cash	net cash
Returns (%)					
ROE	10%	8%	8%	11%	12%
ROA	5%	4%	5%	7%	7%
Per share					
EPS (RMB)	0.57	0.49	0.51	0.72	0.84
DPS (RMB)	0.29	0.25	0.26	0.36	0.42
BVPS (RMB)	5.75	5.96	6.15	6.60	7.06

Source: Company data, CMBIS estimates

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