

Great Wall Motor (2333 HK)

Marketing takes the lead

We believe GWM will maintain its growth momentum in 2021E given 1) strong product cycle and 2) recognition of its cutting-edge technology. In 2020, GWM recorded total revenue of RMB103.3bn, an increase of 7%YoY (Sales of automobiles +7%, Sales of automobile parts and components +23%). Net profit achieved RMB5.4bn (vs CMBI estimate RMB4.9bn), an increase of 18%. In 4Q20, NP was RMB2.8bn, an increase of 76% YoY. We raise our TP to from HK\$17.0 to HK\$28.2 with an upside of 22.5%. Reiterate BUY.

- **The Company achieved a total sales volume of 1.11mn units in 2020, an increase of 5% YoY.** (Haval brand -3%, WEY -22%, pickup truck +51%, Ora +45%). In late 2020, GWM rolled out the 3rd-generation Haval H6 and other new products such as Haval Dagou, Tank 300, and Ora Haomao. We expect that the new models will contribute a substantial sales volume to GWM in 2021E. In addition, it is expected that GWM will launch more than 10 new models in 2021E, including Haval Chulian (formerly H2), M6 Plus, and Chitu. Moreover, WEY will release Mocha, Macchiato in 1H21E, and the first B-class sedan in Jun 2021. We are very optimistic about the Company's strong product cycle and forecast that its sales volume will reach 1.39mn units in 2021E, an increase of 24% YoY.
- **Organizational structure reform + stock/option incentives promote a marketing revolution.** The Company has made corresponding changes in the underlying organizational structure, corporate culture, and human resource management. In addition, GWM established an organizational structure of "one vehicle, one brand, one company", enabling each team to make the decision on the ground and achieving user-centric marketing. We appreciate the reform measures which will mobilize the enthusiasm of front-line employees and stimulate marketing innovations. By digging out niche segments and emphasizing product features such as "young" and "female users", it has successfully created a new blue ocean market in the corresponding niche market. The Company achieved interactive marketing such as product naming to create consumer identity and to strengthen user stickiness. We believe that innovative marketing will stimulate sales volume while enhancing brand recognition.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue (RMB mn)	99,230	96,211	103,308	129,236	141,446
YoY growth (%)	-1.92%	-3.04%	7.38%	25.10%	9.45%
Net income (RMB mn)	5,207	4,497	5,362	7,327	8,648
EPS (RMB)	0.57	0.49	0.58	0.80	0.94
YoY growth (%)	4%	-14%	19%	37%	18%
Consensus EPS(RMB)	0.57	0.49	0.49	0.96	1.19
P/E (x)	34.26	39.68	33.45	24.48	20.74
P/B (x)	3.40	3.28	3.13	2.90	2.68
Yield (%)	1.48%	1.28%	1.43%	1.96%	2.31%
ROE (%)	10.24%	8.41%	9.60%	12.30%	13.44%
Net gearing (%)	14%	net cash	8%	1%	net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$28.9
(Previous TP	HK\$17.0)
Up/Downside	+22.5%
Current Price	HK\$23.6

China Auto Sector

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Stock Data

Mkt Cap (HK\$ mn)	297,149
Avg 3 mths t/o (HK\$ mn)	1,212.70
52w High/Low (HK\$)	31.33/4.5
Equity share - 2333.HK	3,100
Equity share - 601633.SH	6,076

Source: Wind

Shareholding Structure

Baoding Innovation Great Wall Asset Management Company Limited – A	84.18%
Schroders Plc	3.48%
Citigroup Inc.	2.13%

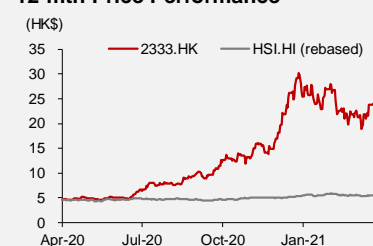
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	10.6%	10.7%
3-mth	-7.4%	-8.1%
6-mth	92.4%	61.5%

Source: Wind

12-mth Price Performance



Source: Wind

Auditor: Deloitte Touche Tohmatsu

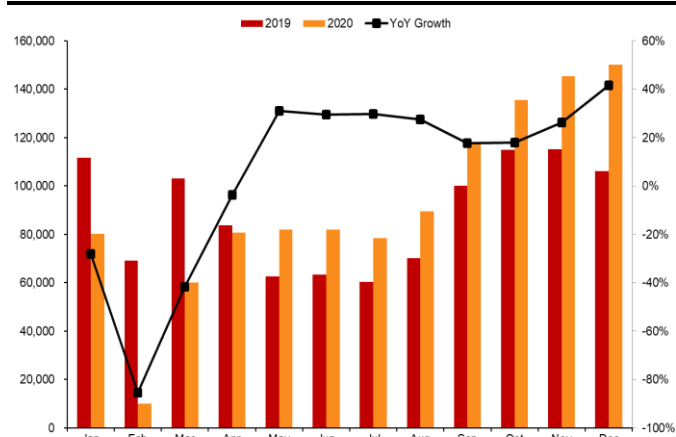
Related Reports

1. "Great Wall Motor (2333 HK) – More catalysts come up soon" – 28 Oct 2020
2. "Great Wall Motor (2333 HK) – Niche market brings incremental sales volume" – 31 Aug 2020
3. "Great Wall Motor (2333 HK) – New product cycle underpins the performance" – 17 Jul 2020

- **Technology advantages are gradually established.** With its advantages in economy and power features, GWM's DHT system based on Ningmeng platform is expected to raise the sales volume of hybrid models. The Company released the "331 Strategy" on the Kafei platform in the related autonomous driving field. The Company cooperated with Huawei and Qualcomm while investing in Horizon Robotics to further accumulate technological strength. In 2021E, the WEY Mocha model will be equipped with 5 millimeter-wave radars and 1 front-view camera. It will use Mobileye EyeQ4 as the autonomous driving chip, which calculation power can reach 2.5TOPS. The camera module can process the picture information collected by the camera at a speed of 36 frames per second. We believe GWM's technology advantage was gradually recognized by the market.
- **We raise our bottom-line forecast to RMB7.3bn in 2021E to reflect strong product cycle and the benefit from new platforms.** Our revised NP forecast suggests that GWM's bottom-line will grow 37% YoY in 2021E. We believe GWM will continue to enjoy price premium given 1) strong product cycle and 2) technology advantage. We raise our TP to HK\$28.9 (based on 30.0x 2021E P/E) with an upside of 22.5% from HK\$17.0 (based on initial previous 20.0x average 2021E P/E). Reiterate BUY.

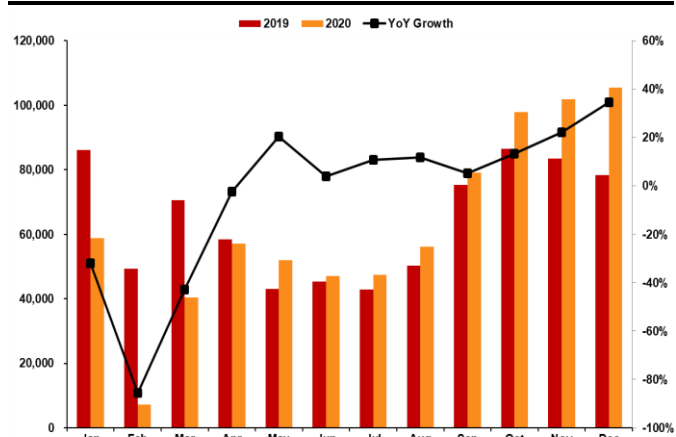
Focus chart

Figure 1: GWM's total sales volume in 2020



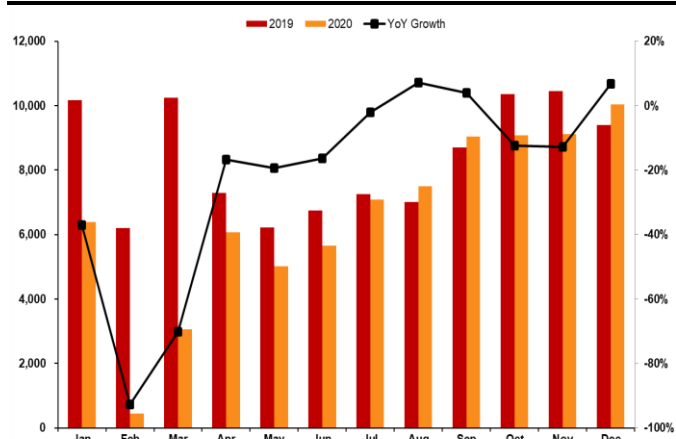
Source: Company data, CMBIS

Figure 2: Sales volume: Haval in 2020



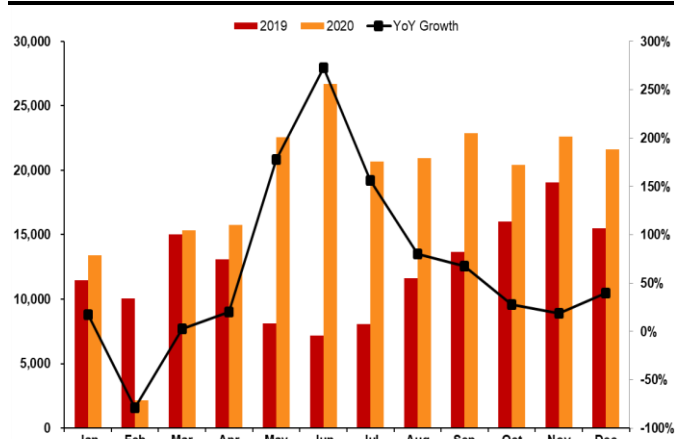
Source: Company data, CMBIS

Figure 3: Sales volume: WEY in 2020



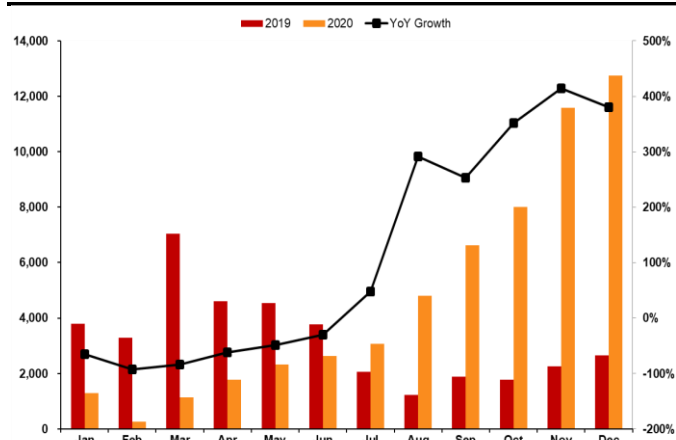
Source: Company data, CMBIS

Figure 4: Sales volume: Pickup truck in 2020



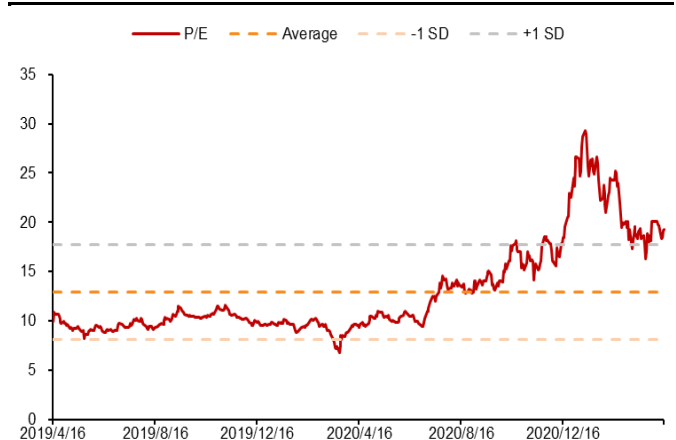
Source: Company data, CMBIS

Figure 5: Sales volume: ORA in 2020



Source: Company data, CMBIS

Figure 6: PE Chart



Source: Bloomberg, CMBIS

Earnings Revision

Figure 7: Earnings revision

(RMB mn)	New		Old		Change (%)	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	129,236	141,446	113,474	124,351	14%	14%
Gross profit	22,680	25,624	20,032	22,732	13%	13%
Operating profit	7,968	9,420	7,455	8,885	7%	6%
Net profit	7,327	8,648	6,862	8,080	7%	7%
EPS (RMB)	0.80	0.94	0.75	0.88	7%	7%
GPM	17.55%	18.12%	17.65%	18.28%	-0.1 ppt	-0.2 ppt
OPM	6.17%	6.66%	6.57%	7.14%	-0.4 ppt	-0.5 ppt
NPM	5.67%	6.11%	6.05%	6.50%	-0.4 ppt	-0.4 ppt

Source: CMBIS estimates

Figure 8: CMBIS estimates vs consensus

(RMB mn)	CMBIS		Consensus		Diff (%)	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	129,236	141,446	132,047	150,414	-2%	-6%
Gross profit	22,680	25,624	24,588	28,693	-8%	-11%
Operating profit	7,968	9,420	10,316	12,305	-23%	-23%
Net profit	7,327	8,648	8,665	10,776	-15%	-20%
EPS (RMB)	0.80	0.94	0.96	1.19	-17%	-21%
GPM	17.55%	18.12%	18.62%	19.08%	-1.1 ppt	-1.0 ppt
OPM	6.17%	6.66%	7.56%	8.33%	-1.4 ppt	-1.7 ppt
NPM	5.67%	6.11%	6.56%	7.16%	-0.9 ppt	-1.1 ppt

Source: Bloomberg, CMBIS estimates

Figure 9: Revenue breakdown

(RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E
Sales of automobiles	91,597	86,251	92,386	117,051	128,375
...YoY	-5%	-6%	7%	27%	10%
Automobile parts and components	6,203	8,857	10,922	12,185	13,071
...YoY	38%	43%	23%	12%	7%
Parts and components	3,746	4,293	5,141	5,912	6,385
...YoY	18%	15%	20%	15%	8%
Mold and others	461	652	1,233	1,270	1,282
...YoY	-4%	41%	89%	3%	1%
Services	957	2,585	2,691	2,961	3,197
...YoY	311%	170%	4%	10%	8%
Other	1,039	1,327	1,857	2,042	2,206
...YoY	69%	28%	40%	10%	8%
Interest income	1,389	1,031	0	0	0
...YoY	106%	-26%	-100%	NA	NA
Total	99,189	96,139	103,308	129,236	141,446
...YoY	-2%	-3%	7%	25%	9%

Source: Company data, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue	99,230	96,211	103,308	129,236	141,446
Cost of sales	(81,864)	(80,023)	(85,531)	(106,556)	(115,822)
Gross profit	17,366	16,188	17,777	22,680	25,624
Taxes and levies	(3,627)	(3,169)	(3,192)	(4,136)	(4,526)
S&D expenses	(4,575)	(3,897)	(4,103)	(5,234)	(5,771)
Admin expenses	(1,676)	(1,955)	(2,553)	(2,972)	(3,112)
R&D expenses	(1,743)	(2,716)	(3,067)	(3,683)	(4,031)
Finance expenses	494	351	(397)	(785)	(664)
Credit/asset impairment	(318)	(553)	(712)	(659)	(651)
Other income	176	543	887	1,034	707
Share of PL of JV	0	0	0	0	0
Investment income	219	16	956	1,745	1,867
G/L from disposal	(82)	(30)	156	(21)	(23)
Non-operating income	253	342	494	558	659
Non-operating expenses	(8)	(18)	(18)	(16)	(24)
Profit before income tax	6,477	5,101	6,227	8,510	10,055
Income tax expense	(1,229)	(570)	(865)	(1,183)	(1,408)
Profit for the year	5,248	4,531	5,362	7,327	8,648
Less: MI	40	34	0	0	0
Net Profit	5,207	4,497	5,362	7,327	8,648

Cash flow

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E
Net income	5,207	4,497	5,362	7,327	8,648
D&A	2,878	3,428	3,507	3,711	4,022
Change in working capital	41,536	2,301	13,140	8,111	4,059
Others	(29,923)	3,746	(28,395)	(7,678)	(6,674)
Net cash from operating activities	19,698	13,972	(6,386)	11,471	10,055
Capex & investments	(4,216)	(4,391)	(3,124)	(3,886)	(4,131)
Associated companies	-	-	-	-	-
Others	(5,824)	(11,411)	-	-	-
Net cash from investing activities	(10,040)	(15,802)	(3,124)	(3,886)	(4,131)
Equity raised	-	20	215	-	-
Change of Debts	1,496	(12,513)	16,729	(3,148)	1,352
Dividend paid	(2,647)	(2,282)	(2,569)	(3,517)	(4,151)
Others	(5,350)	18,719	-	-	-
Net cash from financing activities	(6,501)	3,944	14,375	(6,665)	(2,799)
Net change in cash	3,157	2,115	4,865	920	3,125
Cash at the beginning	4,831	7,682	9,723	14,588	15,508
Exchange difference	(306)	(73)	-	-	-
Cash at the end	7,682	9,723	14,588	15,508	18,634
Less: pledged cash	-	-	-	-	-

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E
Non-current assets	45,674	44,593	54,613	55,332	56,431
Fixed asset	28,993	29,843	28,848	28,784	28,893
Intangible assets	3,391	4,710	5,543	5,181	5,201
Interest in JV/associate	-	-	-	-	-
Other non-current assets	13,290	10,040	20,221	21,367	22,337
Current assets	66,126	68,502	99,399	115,471	127,486
Cash	7,682	9,723	14,588	15,508	18,634
Account receivable	3,343	3,193	3,936	3,806	4,137
Inventory	4,445	6,237	7,498	9,266	10,071
Other current assets	50,656	49,348	73,377	86,891	94,644
Current liabilities	54,618	54,601	81,166	96,271	103,230
Borrowings	12,800	1,180	7,901	8,861	8,487
Account payables	29,401	35,461	49,841	59,198	64,346
Other payables	9,866	16,447	20,638	25,847	27,582
Tax payables	2,551	1,512	2,786	2,366	2,815
Non-current liabilities	4,493	4,097	15,504	12,740	13,838
Borrowings	2,158	1,265	11,272	8,271	8,891
Provisions	0	0	0	0	0
Deferred income tax	253	489	544	591	704
Others	2,082	2,343	3,688	3,877	4,243
Shareholders' equity	52,525	54,398	57,342	61,791	66,849
Minority Interest	164	0	0	0	0
Total net assets	52,689	54,398	57,342	61,791	66,849

Key ratios

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E
Sales mix (%)					
Automobiles	92%	90%	89%	91%	91%
Parts and components	6%	9%	11%	9%	9%
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%	7%
Net margin	5%	5%	5%	6%	6%
Effective tax rate	19%	11%	14%	14%	14%
Balance sheet ratios					
Current ratio (x)	1.21	1.25	1.22	1.20	1.23
Quick ratio (x)	0.26	0.32	0.29	0.25	0.27
Cash ratio (x)	0.14	0.18	0.18	0.16	0.18
Debtors turnover days	12	12	14	13	13
Total debt / total equity	112%	108%	169%	176%	175%
Net debt / equity ratio (%)	14%	net cash	8%	1%	net cash
Returns (%)					
ROE	10%	8%	10%	12%	13%
ROA	5%	4%	5%	6%	6%
Per share					
EPS (RMB)	0.57	0.49	0.58	0.80	0.94
DPS (RMB)	0.29	0.25	0.28	0.38	0.45
BVPS (RMB)	5.75	5.96	6.25	6.73	7.28

Source: Company data, CMBIS estimates

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