

Great Wall Motor (2333 HK)

Wait for the turning point in 2H20E

GWM announced its FY19 results. Revenue achieved RMB96.2bn (vs CMBIS estimate of RMB94.8bn/ vs consensus estimate of RMB96.6bn), a decrease of 3% YoY. NP was RM4.5bn (vs CMBIS estimate RMB3.9bn / vs consensus estimate of RMB4.3bn), a decrease of 14%. EPS declined by 14% to RMB0.49. DPS will be determined after the audit process completes. We lowered TP to HK\$4.7 (from HK\$5.9), based on same 11x 2020E P/E.

- To reflect the impact of COVID-19, GWM adjusted down its sales target for 2020E to 1.02 mn units from 1.11 mn units.** The Company will launch two new models in 2H20E including the new generation of Haval H6. Among the Haval product family, H6 accounted for 50% of the total sales volume in 2019. We believe the new generation of H6, which builds on the new platform, will support the sales performance. Given favorable policy for the pickup trucks, the sales volume of the pickup trucks segment has steadily increased. In 2019, the sales volume of pickup trucks reached 165K, an increase of 13% YoY, offsetting the decline in the PV segment. A new generation of WEY will also be rolled out at the end of 2020E/early 2021E, leading the brand upgrade of GWM. We forecast the total sales volume of GWM will be 1.01mn units in 2020E.
- GWM's R&D investment focuses on NEV and connected-vehicle field.** Specifically, its affiliated companies under the parent company have the technical advantage of power battery while GWM plays to launch L3 self-driving product in 2021E. We believe GWM has a long-term vision and has growth potential in the long run. However, we believe that the short-term performance inflection point will appear in 2H20E given its product pipeline.
- The Company sticks to its globalization strategy.** In 2019, GWM has exported 65K units, an increase of 45% YoY. In addition, the Tula factory in Russia was put into production in mid 2019 with an initial production capacity of 80K units. In early 2020, GWM acquired two factories located in India/Thailand from GM. We believe GWM will further expand its footprint in the overseas market.
- We cut our top-line forecast in 2020E by 5% to RMB92.7bn to reflect the COVID-19 impact.** Furthermore, we cut our bottom-line forecast by 18% to RMB3.5bn in 2020E to reflect higher expense ratio. Therefore, we cut our TP to HK\$4.7 (based on initial 11.0x 2020E P/E) with a downside of 0.3% from initial TP HK\$5.9. Reiterate HOLD.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	99,230	96,211	92,720	103,532	110,617
YoY growth (%)	-1.92%	-3.04%	-3.63%	11.66%	6.84%
Net income (RMB mn)	5,207	4,497	3,514	5,090	6,532
EPS (RMB)	0.57	0.49	0.38	0.56	0.72
YoY growth (%)	4%	-14%	-22%	45%	28%
Consensus EPS(RMB)	0.57	0.48	0.49	0.58	0.56
P/E (x)	7.45	8.62	11.03	7.62	5.94
P/B (x)	0.74	0.71	0.69	0.65	0.60
Yield (%)	6.83%	na	3.66%	5.30%	6.80%
ROE (%)	10.24%	8.41%	6.37%	8.81%	10.56%
Net gearing (%)	98%	90%	88%	93%	85%

Source: Company data, Bloomberg, CMBIS estimates

HOLD (Maintain)

Target Price	HK\$4.7
(Previous TP)	HK\$5.9)
Up/Downside	-0.3%
Current Price	HK\$4.7

China Auto Sector

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Stock Data

Mkt Cap (HK\$ mn)	70,630
Avg 3 mths t/o (HK\$ mn)	165.86
52w High/Low (HK\$)	6.95/3.85
Total Issued Shares (mn)	9,127

Source: Bloomberg

Shareholding Structure

Baoding Innovation Great Wall Asset Management Company Limited	84.86%
Citigroup Inc.	7.73%
JPMorgan Chase & Co.	5.88%

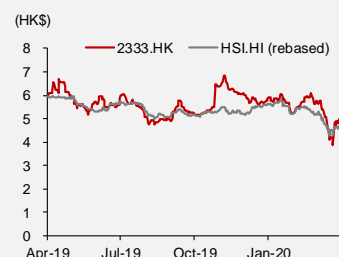
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-16.3%	-5.3%
3-mth	-18.1%	0.1%
6-mth	-10.1%	1.6%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Deloitte Touche Tohmatsu

Related Reports

- "Great Wall Motor (2333 HK) – Earning surprise – 3Q19 performance updates" – 28 Oct 2019
- "Great Wall Motor (2333 HK) – Maintain growth in decline market" – 4 Oct 2019

Earnings Revision

Figure 1: FY19 results review

RMB mn	FY18A	FY19A	YoY	CMBIS		Consensus	
				FY19E	Diff (%)	FY19E	Diff (%)
Revenue	99,230	96,211	-3%	94,816	1%	96,550	0%
Gross profit	17,366	16,188	-7%	15,313	6%	15,350	5%
EBIT	5,983	4,750	-21%	4,452	7%	5,625	-16%
Net profit	5,207	4,497	-14%	3,942	14%	4,325	4%
EPS (RMB)	0.57	0.49	-14%	0.43	13%	0.48	2%
Gross margin	17.50%	16.83%	-0.7 ppt	16.15%	0.7 ppt	15.90%	0.9 ppt
EBIT margin	6.03%	4.94%	-1.1 ppt	4.70%	0.2 ppt	5.83%	-0.9 ppt
Net margin	5.25%	4.67%	-0.6 ppt	4.16%	0.5 ppt	4.48%	0.2 ppt

Source: Company data, Bloomberg, CMBIS estimates

Figure 2: Earnings revision

(RMB mn)	New		Old		Change (%)	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	92,720	103,532	97,634	106,807	-5%	-3%
Gross profit	15,263	18,194	16,110	18,157	-5%	0%
EBIT	4,030	5,989	5,233	6,327	-23%	-5%
Net profit	3,514	5,090	4,280	5,152	-18%	-1%
EPS (RMB)	0.38	0.56	0.47	0.56	-18%	-1%
Gross margin	16.46%	17.57%	16.50%	17.00%	0.0 ppt	0.6 ppt
EBIT margin	4.35%	5.78%	5.36%	5.92%	-1.0 ppt	-0.1 ppt
Net Margin	3.79%	4.92%	4.38%	4.82%	-0.6 ppt	0.1 ppt

Source: CMBIS estimates

Figure 3: Revenue breakdown

(RMB mn)	FY18	FY19	FY20E	FY21E	FY22E
Sales of automobiles	91,597	86,251	80,889	89,811	95,245
...YoY	-5%	-6%	-6%	11%	6%
Automobile parts and components	6,203	8,857	9,809	11,027	12,515
...YoY	38%	43%	11%	12%	13%
Parts and components	3,746	4,293	4,808	5,433	6,248
...YoY	18%	15%	12%	13%	15%
Moulds and others	461	652	645	658	672
...YoY	-4%	41%	-1%	2%	2%
Services	957	2,585	2,895	3,329	3,829
...YoY	311%	170%	12%	15%	15%
Other	1,039	1,327	1,460	1,606	1,766
...YoY	69%	28%	10%	10%	10%
Interest income	1,389	1,031	2,022	2,694	2,857
...YoY	106%	-26%	96%	33%	6%
Total	99,189	96,139	92,720	103,532	110,617
...YoY	-2%	-3%	-4%	12%	7%

Source: Company data, CMBIS estimates

Figure 4: P&L forecast

RMB mn	FY18	FY19	FY20E	FY21E	FY22E
Revenue	99,230	96,211	92,720	103,532	110,617
...YoY	-1.92%	-3.04%	-3.63%	11.66%	6.84%
Cost of sales	-81,864	-80,023	-77,457	-85,338	-90,224
Gross profit	17,366	16,188	15,263	18,194	20,394
GPM (%)	17.50%	16.83%	16.46%	17.57%	18.44%
...YoY	-9.18%	-6.78%	-0.32%	19.21%	12.09%
Selling Exp	-4,575	-3,897	-3,755	-4,167	-4,537
...% of rev	-4.61%	-4.05%	-4.05%	-4.03%	-4.10%
Admin Exp	-1,676	-1,955	-1,901	-2,087	-2,235
...% of rev	-1.69%	-2.03%	-2.05%	-2.02%	-2.02%
EBIT	5,983	4,750	4,030	5,989	7,621
EBIT Margin (%)	6.03%	4.94%	4.35%	5.78%	6.89%
...YoY	-6.08%	-20.61%	-9.48%	48.60%	27.26%
Net profit	5,207	4,497	3,514	5,090	6,532
NPM (%)	5.25%	4.67%	3.79%	4.92%	5.90%
...YoY	3.62%	-13.64%	-21.86%	44.86%	28.32%

Source: Company data, CMBIS estimates

Financial Summary

Income statement						Cash flow					
YE Dec 31 (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E	YE Dec 31 (RMB mn)	FY18A	FY19E	FY20E	FY21E	FY22E
Revenue	99,230	96,211	92,720	103,532	110,617	Net income	5,207	4,497	3,514	5,090	6,532
Cost of sales	(81,864)	(80,023)	(77,457)	(85,338)	(90,224)	D&A	4,227	4,227	4,685	4,958	5,321
Gross profit	17,366	16,188	15,263	18,194	20,394	Change in working capital	(7,067)	46,994	1,424	(3,040)	(1,539)
Taxes and levies	(3,627)	(3,169)	(3,152)	(3,654)	(3,933)	Others	17,331	(48,753)	2,314	59	2,347
S&D expenses	(4,575)	(3,897)	(3,755)	(4,167)	(4,537)	Net cash from operating	19,698	6,965	11,937	7,068	12,660
Admin expenses	(1,676)	(1,955)	(1,901)	(2,087)	(2,235)	Capex & investments	(11,044)	(11,046)	(5,192)	(5,177)	(5,531)
R&D expenses	(1,743)	(2,716)	(2,689)	(2,764)	(2,957)	Associated companies	-	-	-	-	-
Finance expenses	494	351	147	60	211	Others	1,004	5,357	-	-	1
Credit/asset impairment	(318)	(553)	(323)	(352)	(269)	Net cash from investing	(10,040)	(5,689)	(5,192)	(5,177)	(5,530)
Other income	176	543	344	447	424	Equity raised	-	-	-	-	-
Share of PL of JV	0	0	0	0	0	Change of Debts	13,162	1,496	(4,079)	(106)	1,054
Investment income	219	16	20	26	34	Dividend paid	(2,647)	-	(1,418)	(2,055)	(2,636)
G/L from disposal	(82)	(30)	12	13	282	Others	(17,016)	-	-	-	1
Non-operating income	253	342	222	348	437	Net cash from financing	(6,501)	(95)	(5,498)	(2,160)	(1,581)
Non-operating expenses	(8)	(18)	(10)	(16)	(18)	Net change in cash	3,157	1,181	1,247	(269)	5,549
Profit before income tax	6,477	5,101	4,177	6,049	7,833	Cash at the beginning	4,831	7,682	8,863	10,109	9,840
Income tax expense	(1,229)	(570)	(631)	(913)	(1,242)	Exchange difference	(306)	861	-	-	1
Profit for the year	5,248	4,531	3,546	5,136	6,591	Cash at the end	7,682	9,723	10,109	9,840	15,389
Less: MI	40	34	32	46	59	Less: pledged cash	-	-	-	-	-
Net Profit	5,207	4,497	3,514	5,090	6,532						

Balance sheet						Key ratios					
YE Dec 31 (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E	YE Dec 31 (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	45,674	44,593	42,832	42,898	41,720	Sales mix (%)					
Fixed asset	28,993	29,843	26,444	24,771	23,074	Automobiles	92%	90%	87%	87%	86%
Intangible assets	3,391	4,710	2,975	2,787	2,596	Parts and components	6%	9%	11%	11%	11%
Interest in JV/associate	-	-	-	-	-	Interest income	1%	1%	2%	3%	3%
Other non-current assets	13,290	10,040	13,413	15,340	16,050	Total	100%	100%	100%	100%	100%
Current assets	66,126	68,502	72,654	82,655	92,758	P&L ratios (%)					
Cash	7,682	9,723	10,109	9,840	15,389	Gross profit margin	18%	17%	16%	18%	18%
Account receivable	3,343	3,193	9,682	14,223	15,037	Pre-tax margin	7%	5%	5%	6%	7%
Inventory	4,445	6,237	4,303	4,741	5,012	Net margin	5%	5%	4%	5%	6%
Other current assets	50,656	49,348	48,559	53,851	57,320	Effective tax rate	19%	11%	15%	15%	16%
Current liabilities	54,618	54,600	54,935	60,911	64,939	Balance sheet ratios					
Borrowings	12,800	1,180	8,345	9,318	9,956	Current ratio (x)	1.21	1.25	1.32	1.36	1.43
Account payables	29,401	35,461	38,729	42,669	45,112	Quick ratio (x)	0.26	0.32	0.42	0.45	0.52
Other payables	9,866	16,447	6,679	7,058	7,307	Cash ratio (x)	0.14	0.18	0.18	0.16	0.24
Tax payables	2,551	1,512	1,183	1,866	2,565	Debtors turnover days	12	12	46	61	61
Non-current liabilities	4,493	4,097	4,429	4,833	5,219	Total debt / total equity	112%	108%	106%	110%	109%
Borrowings	2158	1265	2428	2509	2597	Net debt / equity ratio (%)	98%	90%	88%	93%	85%
Provisions	0	0	0	0	0	Returns (%)					
Deferred income tax	253	489	146	253	409	ROE	10%	8%	6%	9%	11%
Others	2,082	2,343	1,854	2,071	2,212	ROA	5%	4%	4%	5%	6%
Total net assets	52,689	54,398	56,122	59,809	64,321	Per share					
Minority Interest	164	0	173	185	199	EPS (RMB)	0.57	0.49	0.38	0.56	0.72
Shareholders' equity	52,525	54,398	55,949	59,625	64,122	DPS (RMB)	0.29	NA	0.16	0.23	0.29
						BVPS (RMB)	5.75	5.96	6.13	6.53	7.03

Source: Company data, CMBIS estimates

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