

# Great Wall Motor (2333 HK)

## More catalysts come up soon

GWM released its 3Q20 results. In 3Q20, GWM achieved a total sales volume of 286K, an increase of 23.9% YoY (Haval +8.5% YoY/ WEY +3.0% YoY/ pickup truck +93.2% YoY/ ORA +179.9% YoY). 3Q20 top-line increased by 24% YoY to RMB26.2bn while bottom-line rise by 3% to RMB1.4bn. We raise our TP to HK\$17.0 with an upside of 35.3% from initial TP HK\$9.4. Reiterate BUY.

- 3Q20 results missed market expectations due to FX fluctuation.** The main reasons which lead to disappointing 3Q20 results included 1) the devaluation of the RUB in 3Q20 and the oversea loan exposure brought an FX loss of RMB510mn. After stripping out the impact of exchange losses, GWM's net profit was RMB1.95bn in 3Q20, up 47.2% YoY. 2) Due to the launch of new models and the delay of the Beijing Auto Show in 3Q, S&D expenses ratio increased to 4.6% in 3Q20 (vs 4.2% in 3Q19).
- GPM is expected to expand further in the future.** GPM in 3Q20 was 18.9%, an increase of 0.42ppt YoY. The improvement in GWM in 3Q20 mainly came from 1) the economies of scale brought by sales volume growth (+23.9% YoY) and 2) a higher proportion of pickup trucks (22.6% in 3Q20 vs 14.5% in 3Q19). GWM will roll out 10+ new models in 2021E further supporting the sales growth. We expect GPM will keep expanding given 1) the improvement of operating leverage and 2) the benefits from platform technologies.
- NEV + globalization will continue to support the re-rating trend.** Benefiting from 1) the launch of new models and 2) marketing strategies improvement, GWM Ora achieved a sale volume of 6,619 units in Sep, an increase of 253% YoY. Ora will roll out a new model (Haomao) in Nov, which is expected to become a hot product, supporting GWM's NEV sales and enhancing the brands power. In terms of globalization, the Thai factory is expected to be settled with GM in 4Q20E, marking another milestone in its global strategy. We are very optimistic about the future auto market of the Southeast Asia which GWM will benefit from it given its strong presence.
- We raise our bottom-line forecast to RMB6.9bn in 2021E to reflect the GPM expansion.** Our revised NP forecast suggests that GWM's bottom-line will grow 48% YoY in 4Q20E. At the same time, we revised up our NP forecast to RMB6.9bn in 2021E to reflect a strong product cycle and the benefit from new platforms. We raise our TP to HK\$17.0 (based on 20.0x 2021E P/E) with an upside of 35.3% from initial TP HK\$9.4 (based on initial 13.5x average 2020E/21E P/E). Reiterate BUY.

### Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	99,230	96,211	97,693	113,474	124,351
YoY growth (%)	-1.92%	-3.04%	1.54%	16.15%	9.58%
Net income (RMB mn)	5,207	4,497	4,929	6,862	8,080
EPS (RMB)	0.57	0.49	0.54	0.75	0.88
YoY growth (%)	4%	-14%	9%	39%	18%
Consensus EPS(RMB)	0.57	0.49	0.45	0.59	0.65
P/E (x)	19.38	22.44	20.58	14.79	12.56
P/B (x)	1.92	1.86	1.79	1.67	1.55
Yield (%)	2.62%	2.26%	2.43%	3.38%	3.98%
ROE (%)	10.24%	8.41%	8.88%	11.68%	12.80%
Net gearing (%)	14%	net cash	net cash	net cash	net cash

Source: Company data, Bloomberg, CMBIS estimates

## BUY (Maintain)

Target Price	HK\$17.0
(Previous TP	HK\$9.4)
Up/Downside	+35.3%
Current Price	HK\$12.6

### China Auto Sector

#### Jack Bai

(852) 3900 0835  
 jackbai@cmbi.com.hk

#### Stock Data

Mkt Cap (HK\$ mn)	202,569
Avg 3 mths t/o (HK\$ mn)	417.02
52w High/Low (HK\$)	14.3/3.65
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%
Citigroup Inc. – H	6.45%
BlackRock, Inc. - H	6.00%

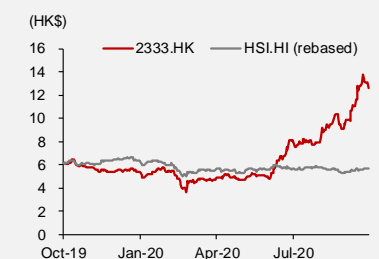
Source: HKEx

#### Share Performance

	Absolute	Relative
1-mth	38.8%	30.1%
3-mth	55.9%	54.8%
6-mth	168.3%	162.8%

Source: Wind

#### 12-mth Price Performance



Source: Wind

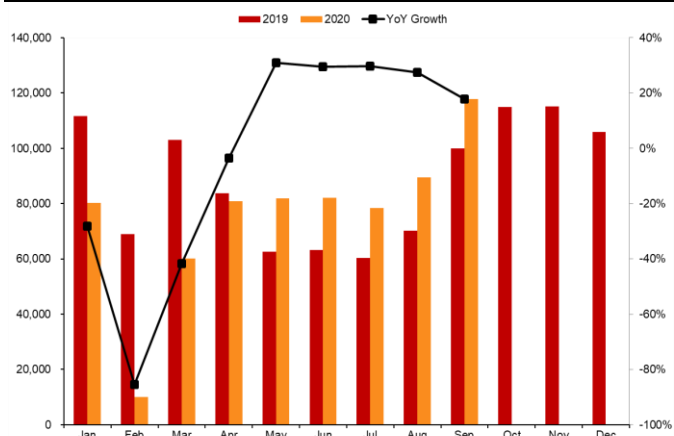
#### Auditor: Deloitte Touche Tohmatsu

#### Related Reports

- "Great Wall Motor (2333 HK) – Niche market brings incremental sales volume" – 31 Aug 2020
- "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

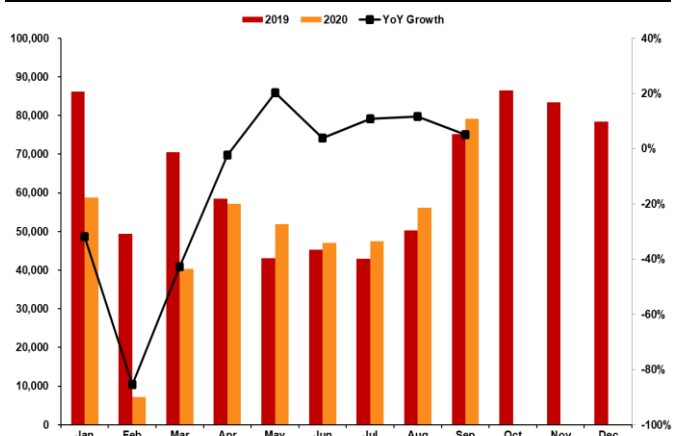
## Focus chart

**Figure 1: GWM's total sales volume**



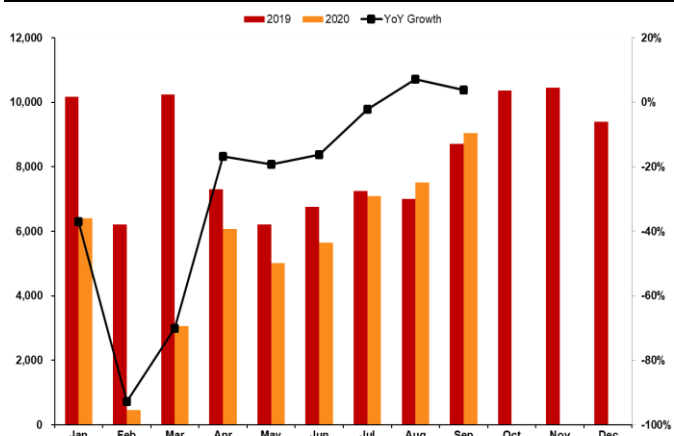
Source: Company data, CMBIS

**Figure 2: Sales volume: Haval**



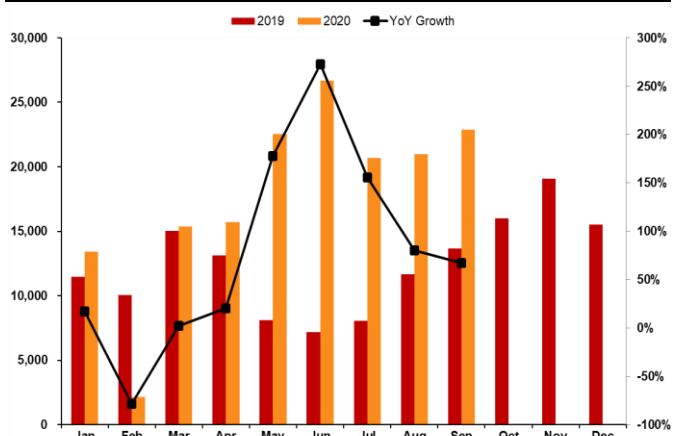
Source: Company data, CMBIS

**Figure 3: Sales volume: WEY**



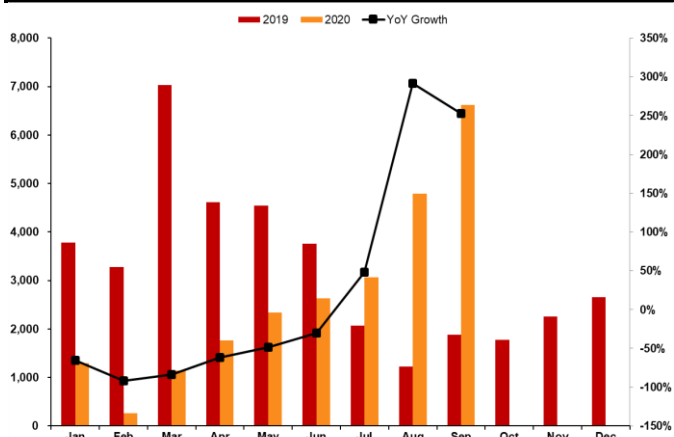
Source: Company data, CMBIS

**Figure 4: Sales volume: Pickup truck**



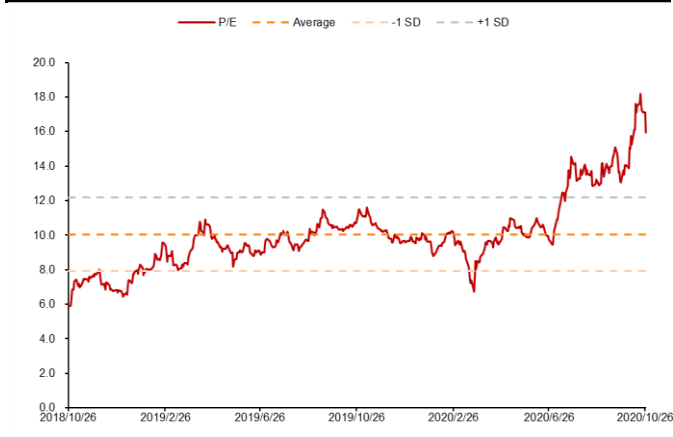
Source: Company data, CMBIS

**Figure 5: Sales volume: ORA**



Source: Company data, CMBIS

**Figure 6: PE Chart**



Source: Bloomberg, CMBIS

## Earnings Revision

Figure 7: Earnings revision

(RMB mn)	New		Old		Change (%)	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	97,693	113,474	95,322	107,556	2%	6%
Gross profit	16,860	20,032	15,972	18,971	6%	6%
Operating profit	5,226	7,455	4,988	7,213	5%	3%
Net profit	4,932	6,862	4,708	6,639	5%	3%
EPS (RMB)	0.54	0.75	0.51	0.72	5%	4%
GPM	17.26%	17.65%	16.76%	17.64%	0.5 ppt	0.0 ppt
OPM	5.35%	6.57%	5.23%	6.71%	0.1 ppt	-0.1 ppt
NPM	5.05%	6.05%	4.94%	6.17%	0.1 ppt	-0.1 ppt

Source: CMBIS estimates

Figure 8: CMBIS estimates vs consensus

(RMB mn)	CMBIS		Consensus		Diff (%)	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	97,693	113,474	94,083	111,902	4%	1%
Gross profit	16,860	20,032	16,169	20,348	4%	-2%
Operating profit	5,223	7,455	5,238	7,759	0%	-4%
Net profit	4,929	6,862	4,471	6,603	10%	4%
EPS (RMB)	0.54	0.75	0.49	0.73	9%	3%
GPM	17.26%	17.65%	17.19%	18.18%	0.1 ppt	-0.5 ppt
OPM	5.35%	6.57%	5.20%	7.01%	0.1 ppt	-0.4 ppt
NPM	5.05%	6.05%	4.75%	5.90%	0.3 ppt	0.1 ppt

Source: Bloomberg, CMBIS estimates

Figure 9: Revenue breakdown

(RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Sales of automobiles</b>	<b>91,597</b>	<b>86,251</b>	<b>87,911</b>	<b>102,512</b>	<b>112,053</b>
...YoY	-5%	-6%	2%	17%	9%
<b>Automobile parts and components</b>	<b>6,203</b>	<b>8,857</b>	<b>9,782</b>	<b>10,962</b>	<b>12,297</b>
...YoY	38%	43%	10%	12%	12%
Parts and components	<b>3,746</b>	<b>4,293</b>	<b>4,980</b>	<b>5,727</b>	<b>6,586</b>
...YoY	18%	15%	16%	15%	15%
Mold and others	<b>461</b>	<b>652</b>	<b>665</b>	<b>685</b>	<b>706</b>
...YoY	-4%	41%	2%	3%	3%
Services	<b>957</b>	<b>2,585</b>	<b>2,611</b>	<b>2,872</b>	<b>3,159</b>
...YoY	311%	170%	1%	10%	10%
Other	<b>1,039</b>	<b>1,327</b>	<b>1,526</b>	<b>1,679</b>	<b>1,847</b>
...YoY	69%	28%	15%	10%	10%
<b>Interest income</b>	<b>1,389</b>	<b>1,031</b>	<b>0</b>	<b>0</b>	<b>0</b>
...YoY	106%	-26%	-100%	NA	NA
<b>Total</b>	<b>99,189</b>	<b>96,139</b>	<b>97,693</b>	<b>113,474</b>	<b>124,351</b>
...YoY	-2%	-3%	2%	16%	10%

Source: Company data, CMBIS estimates

## Financial Summary

Income statement						Cash flow					
YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E	YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Revenue</b>	<b>99,230</b>	<b>96,211</b>	<b>97,693</b>	<b>113,474</b>	<b>124,351</b>	<b>Net income</b>	<b>5,207</b>	<b>4,497</b>	<b>4,929</b>	<b>6,862</b>	<b>8,080</b>
Cost of sales	(81,864)	(80,023)	(80,833)	(93,442)	(101,619)	D&A	2,878	3,428	3,663	3,920	4,298
<b>Gross profit</b>	<b>17,366</b>	<b>16,188</b>	<b>16,860</b>	<b>20,032</b>	<b>22,732</b>	Change in working capital	41,536	2,301	1,518	4,020	2,903
Taxes and levies	(3,627)	(3,169)	(3,077)	(3,745)	(4,228)	Others	(29,923)	(3,261)	(7,852)	(3,158)	(6,649)
S&D expenses	(4,575)	(3,897)	(4,005)	(4,584)	(5,011)	<b>Net cash from operating activities</b>	<b>19,698</b>	<b>6,965</b>	<b>2,258</b>	<b>11,643</b>	<b>8,632</b>
Admin expenses	(1,676)	(1,955)	(2,149)	(2,133)	(2,313)	Capex & investments	(4,216)	(4,391)	(4,371)	(5,053)	(5,167)
R&D expenses	(1,743)	(2,716)	(3,126)	(3,177)	(3,544)	Associated companies	-	-	-	-	-
Finance expenses	494	351	(64)	(43)	(24)	Others	(5,824)	(1,298)	-	-	-
Credit/asset impairment	(318)	(553)	(567)	(579)	(572)	<b>Net cash from investing activities</b>	<b>(10,040)</b>	<b>(5,689)</b>	<b>(4,371)</b>	<b>(5,053)</b>	<b>(5,167)</b>
Other income	176	543	586	567	622	Equity raised	-	-	-	-	-
Share of PL of JV	0	0	0	0	0	Change of Debts	1,496	(12,513)	(261)	(102)	(191)
Investment income	219	16	782	1,135	1,244	Dividend paid	(2,647)	(2,282)	(2,465)	(3,431)	(4,040)
G/L from disposal	(82)	(30)	(16)	(19)	(20)	Others	(5,350)	14,699	-	-	-
Non-operating income	253	342	392	447	533	<b>Net cash from financing activities</b>	<b>(6,501)</b>	<b>(95)</b>	<b>(2,726)</b>	<b>(3,533)</b>	<b>(4,231)</b>
Non-operating expenses	(8)	(18)	(13)	(15)	(22)	<b>Net change in cash</b>	<b>3,157</b>	<b>1,181</b>	<b>(4,839)</b>	<b>3,057</b>	<b>(766)</b>
<b>Profit before income tax</b>	<b>6,477</b>	<b>5,101</b>	<b>5,602</b>	<b>7,887</b>	<b>9,396</b>	Cash at the beginning	4,831	7,682	9,723	4,885	7,942
Income tax expense	(1,229)	(570)	(672)	(1,025)	(1,315)	Exchange difference	(306)	861	-	-	-
<b>Profit for the year</b>	<b>5,248</b>	<b>4,531</b>	<b>4,929</b>	<b>6,862</b>	<b>8,080</b>	<b>Cash at the end</b>	<b>7,682</b>	<b>9,723</b>	<b>4,885</b>	<b>7,942</b>	<b>7,176</b>
Less: MI	40	34	0	0	0	Less: pledged cash	-	-	-	-	-
<b>Net Profit</b>	<b>5,207</b>	<b>4,497</b>	<b>4,929</b>	<b>6,862</b>	<b>8,080</b>						

Balance sheet						Key ratios					
YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E	YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Non-current assets</b>	<b>45,674</b>	<b>44,593</b>	<b>47,023</b>	<b>49,319</b>	<b>51,152</b>	<b>Sales mix (%)</b>					
Fixed asset	28,993	29,843	30,452	31,586	32,456	Automobiles	92%	90%	90%	90%	90%
Intangible assets	3,391	4,710	4,872	5,054	5,193	Parts and components	6%	9%	10%	10%	10%
Interest in JV/associate	-	-	-	-	-	Interest income	1%	1%	0%	0%	0%
Other non-current assets	13,290	10,040	11,699	12,679	13,503	<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>Current assets</b>	<b>66,126</b>	<b>68,502</b>	<b>62,933</b>	<b>71,544</b>	<b>77,606</b>	<b>P&amp;L ratios (%)</b>					
Cash	7,682	9,723	4,885	7,942	7,176	Gross profit margin	18%	17%	17%	18%	18%
Account receivable	3,343	3,193	2,694	3,115	3,387	Pre-tax margin	7%	5%	6%	7%	8%
Inventory	4,445	6,237	6,736	8,125	8,836	Net margin	5%	5%	5%	6%	6%
Other current assets	50,656	49,348	48,617	52,362	58,206	Effective tax rate	19%	11%	12%	13%	14%
<b>Current liabilities</b>	<b>54,618</b>	<b>54,601</b>	<b>49,146</b>	<b>55,371</b>	<b>58,511</b>	<b>Balance sheet ratios</b>					
Borrowings	12,800	1,180	1,010	624	622	Current ratio (x)	1.21	1.25	1.28	1.29	1.33
Account payables	29,401	35,461	32,333	37,377	40,648	Quick ratio (x)	0.26	0.32	0.24	0.28	0.26
Other payables	9,866	16,447	14,459	15,319	14,611	Cash ratio (x)	0.14	0.18	0.10	0.14	0.12
Tax payables	2,551	1,512	1,344	2,051	2,631	Debtors turnover days	12	12	12	12	12
<b>Non-current liabilities</b>	<b>4,493</b>	<b>4,097</b>	<b>4,174</b>	<b>4,613</b>	<b>4,890</b>	Total debt / total equity	112%	108%	94%	99%	97%
Borrowings	2,158	1,265	1,598	1,458	1,270	Net debt / equity ratio (%)	14%	net cash	net cash	net cash	net cash
Provisions	0	0	0	0	0	<b>Returns (%)</b>					
Deferred income tax	253	489	134	205	263	ROE	10%	8%	9%	12%	13%
Others	2,082	2,343	2,442	2,950	3,357	ROA	5%	4%	5%	7%	8%
<b>Shareholders' equity</b>	<b>52,525</b>	<b>54,398</b>	<b>56,635</b>	<b>60,879</b>	<b>65,356</b>	<b>Per share</b>					
Minority Interest	164	0	0	0	0	EPS (RMB)	0.57	0.49	0.54	0.75	0.88
<b>Total net assets</b>	<b>52,689</b>	<b>54,398</b>	<b>56,635</b>	<b>60,879</b>	<b>65,356</b>	DPS (RMB)	0.29	0.25	0.27	0.37	0.44
						BVPS (RMB)	5.75	5.96	6.17	6.63	7.12

Source: Company data, CMBIS estimates

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## CMB International Securities Limited

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

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