

Great Wall Motor (2333 HK)

Strong earnings to continue with a new H6 needed

Maintain BUY. We believe strong 1H24 earnings could extend into 2H24 and FY25, as the Tank brand's competitive edge and Great Wall's overseas sales growth could last at least for another year, especially as Great Wall is to start local production in Brazil. On the other hand, we believe it needs a new "H6" in the NEV era no later than 2025, by leveraging its current strong earnings.

- **Strong 2Q24 earnings aided by overseas and Tank.** Great Wall's 1H24 net profit of RMB7.1bn was in line with its preliminary announcement in Jul (within RMB6.5-7.3bn). Average selling price (ASP) in 2Q24 rose 12% QoQ, higher than our prior forecast. GPM in 2Q24 rose 1.4ppts QoQ, aided by higher sales volume contribution from both overseas and the Tank brand. Overseas now account for about half of Great Wall's operating profit, according to management. We therefore estimate that OPM for overseas sales could be about 3.7ppts wider than China's OPM in 1H24.
- **Latin America could be a new sales driver in FY25.** Great Wall now prioritizes Latin America (mainly Brazil, Argentina and Mexico) as its key new overseas market and aims to grab 7% of sales volume in these markets (about 300,000 units a year), as it is to start local production later this year with an initial annual production capacity of 50,000 units.
- **FY25E earnings could still be resilient, which gives Great Wall more time to roll out a competitive mainstream market NEV model.** We expect strong earnings in 1H24 to extend into 2H24 and FY25 despite our forecast of mild overall sales growth, as we believe the Tank brand's competitive edge and Great Wall's overseas sales growth could last at least for another year. We estimate sales volume of 1.22/1.3mn units for FY24/25E and net profit of RMB13.5bn/13.1bn for FY24/25E, implying a net profit per vehicle of RMB11,000/10,000 for FY24/25E, respectively. It appears to us that the automaker has postponed or even redesigned four new NEV models (two each for Wey and Ora) which were scheduled for this year. We view FY24 as a transitional year for Great Wall with much stronger earnings than we expected at the beginning of 2024. It also means FY25 could be crucial for Great Wall to showcase its capabilities in the mainstream market in the NEV era.
- **Valuation/Key risks.** We maintain our BUY rating and target price of HK\$14.00, based on 9x our revised FY25E EPS (prior 11x FY24E) to reflect Great Wall's slower-than-peer electrification transformation. Key risks to our rating and target price include lower sales volume and margins, especially for NEVs, slower tech transformation than we expect, and a sector de-rating.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	137,340	173,212	201,918	214,400	230,200
YoY growth (%)	0.7	26.1	16.6	6.2	7.4
Net profit (RMB mn)	8,266.0	7,021.6	13,473.3	13,140.3	12,591.4
YoY growth (%)	22.9	(15.1)	91.9	(2.5)	(4.2)
EPS (Reported) (RMB)	0.91	0.80	1.53	1.47	1.40
P/E (x)	10.4	11.9	6.2	6.5	6.8
P/B (x)	1.3	1.2	1.1	1.0	0.9
Yield (%)	2.9	3.1	5.6	5.4	5.1
ROE (%)	13.0	10.5	18.2	15.6	13.4

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price HK\$14.00
Up/Downside 33.8%
Current Price HK\$10.46

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Stock Data

Mkt Cap (HK\$ mn) 89,352.1
 Avg 3 mths t/o (HK\$ mn) 224.3
 52w High/Low (HK\$) 14.94/7.68
 Total Issued Shares (mn) 8542.3

Source: FactSet

Shareholding Structure

Mr. Wei Jianjun 60.3%
 Others 39.7%

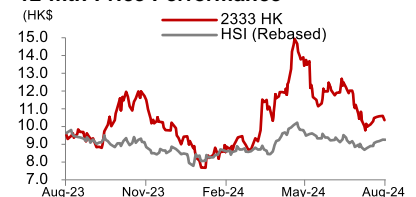
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-2.4%	-5.4%
3-mth	-22.5%	-19.5%
6-mth	18.1%	9.6%

Source: FactSet

12-mth Price Performance



Source: FactSet

Related Report

["Great Wall Motor \(2333 HK\) - 1Q24 NP beat provides room for transformation" - 25 Apr 2024](#)

["Great Wall Motor \(2333 HK\) - PHEVs key to FY24; Earnings likely still resilient" - 3 Apr 2024](#)

Figure 1: Quarterly results

RMB mn	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	YoY	QoQ
Sales volume (units)	220,074	298,722	344,819	366,659	275,333	279,523	-6.4%	1.5%
ASP (RMB)	131,949	137,026	143,648	146,481	155,665	173,757	26.8%	11.6%
Revenue	29,039	40,933	49,532	53,709	42,860	48,569	18.7%	13.3%
Gross profit	4,666	7,124	10,728	9,920	8,587	10,374	45.6%	20.8%
R&D expenses	(1,534)	(1,975)	(1,992)	(2,553)	(1,960)	(2,225)	12.6%	13.5%
SG&A expenses	(2,515)	(2,810)	(2,876)	(4,821)	(2,708)	(3,097)	10.2%	14.3%
Operating profit	(71)	1,296	4,130	1,846	3,633	4,501	247.3%	23.9%
Net profit	174	1,187	3,634	2,027	3,228	3,851	224.4%	19.3%
Gross margin	16.1%	17.4%	21.7%	18.5%	20.0%	21.4%	4.0 ppt	1.3 ppt
Operating margin	-0.2%	3.2%	8.3%	3.4%	8.5%	9.3%	6.1 ppt	0.8 ppt
Net margin	0.6%	2.9%	7.3%	3.8%	7.5%	7.9%	5.0 ppt	0.4 ppt

Source: Company data, CMBIGM

Figure 2: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	201,918	214,400	230,200	202,330	218,930	230,280	-0.2%	-2.1%	0.0%
Gross profit	41,827	44,841	46,900	38,243	41,515	44,632	9.4%	8.0%	5.1%
Operating profit	15,255	14,689	14,081	10,795	11,945	12,856	41.3%	23.0%	9.5%
Net profit	13,473	13,140	12,591	9,916	10,992	11,802	35.9%	19.5%	6.7%
Gross margin	20.7%	20.9%	20.4%	18.9%	19.0%	19.4%	1.8 ppt	2.0 ppt	1.0 ppt
Operating margin	7.6%	6.9%	6.1%	5.3%	5.5%	5.6%	2.2 ppt	1.4 ppt	0.5 ppt
Net margin	6.7%	6.1%	5.5%	4.9%	5.0%	5.1%	1.8 ppt	1.1 ppt	0.3 ppt

Source: CMBIGM estimates

Figure 3: CMBI estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	201,918	214,400	230,200	214,326	249,626	276,577	-5.8%	-14.1%	-16.8%
Gross profit	41,827	44,841	46,900	42,256	49,668	55,512	-1.0%	-9.7%	-15.5%
Operating profit	15,255	14,689	14,081	8,856	12,498	14,249	72.3%	17.5%	-1.2%
Net profit	13,473	13,140	12,591	11,130	12,553	14,068	21.1%	4.7%	-10.5%
Gross margin	20.7%	20.9%	20.4%	19.7%	19.9%	20.1%	1.0 ppt	1.0 ppt	0.3 ppt
Operating margin	7.6%	6.9%	6.1%	4.1%	5.0%	5.2%	3.4 ppt	1.8 ppt	1.0 ppt
Net margin	6.7%	6.1%	5.5%	5.2%	5.0%	5.1%	1.5 ppt	1.1 ppt	0.4 ppt

Source: Bloomberg, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	136,405	137,340	173,212	201,918	214,400	230,200
Cost of goods sold	(114,367)	(110,739)	(140,773)	(160,091)	(169,559)	(183,300)
Gross profit	22,037	26,601	32,439	41,827	44,841	46,900
Operating expenses	(17,959)	(22,335)	(27,061)	(30,731)	(34,012)	(37,236)
Selling expense	(5,192)	(5,876)	(8,285)	(8,841)	(9,553)	(10,185)
Admin expense	(4,043)	(4,893)	(4,735)	(4,995)	(5,299)	(5,650)
R&D expense	(4,490)	(6,445)	(8,054)	(9,424)	(11,012)	(12,884)
Others	(4,234)	(5,121)	(5,986)	(7,471)	(8,147)	(8,517)
Operating profit	4,078	4,265	5,378	11,096	10,829	9,664
Other income	1,161	886	744	600	700	700
Other expense	(47)	(46)	(121)	(100)	(120)	(150)
Gain/loss on financial assets at FVTPL	306	50	(26)	0	0	0
Investment gain/loss	1,109	671	761	941	1,092	1,148
Other gains/(losses)	427	492	962	2,795	1,938	2,126
EBITDA	13,547	16,132	16,599	26,054	27,585	29,229
Depreciation	3,928	4,000	4,081	4,548	4,790	5,024
Depreciation of ROU assets	216	427	463	611	866	1,076
Other amortisation	1,449	2,182	3,284	4,422	6,050	7,935
EBIT	7,954	9,523	8,771	16,473	15,880	15,193
Interest income	313	475	249	564	870	1,183
Interest expense	(472)	(716)	(947)	(718)	(611)	(562)
Net Interest income/(expense)	448	2,488	126	424	830	1,143
Foreign exchange gain/loss	147	2,027	(127)	(100)	0	0
Pre-tax profit	7,482	8,807	7,824	15,755	15,269	14,631
Income tax	(757)	(554)	(801)	(2,284)	(2,138)	(2,048)
After tax profit	6,725	8,253	7,023	13,471	13,131	12,583
Minority interest	1	13	(1)	3	9	9
Net profit	6,726	8,266	7,022	13,473	13,140	12,591
Gross dividends	3,418	2,534	2,563	4,716	4,599	4,407

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	108,366	107,681	118,584	136,159	151,512	171,455
Cash & equivalents	33,048	35,773	38,337	44,357	54,365	66,022
Account receivables	41,497	33,919	41,235	49,788	52,866	55,500
Inventories	13,966	22,375	26,628	28,509	30,195	35,153
Prepayment	1,749	2,229	3,873	3,070	3,716	4,520
Financial assets at FVTPL	414	495	0	0	0	0
Other current assets	17,691	12,890	8,511	10,434	10,369	10,259
Non-current assets	67,042	77,677	82,686	85,348	85,243	83,016
PP&E	27,441	26,949	30,235	29,274	27,871	26,427
Right-of-use assets	227	1,093	736	1,125	959	583
Deferred income tax	2,777	3,253	4,660	4,660	4,660	4,660
Investment in JVs & assos	9,524	10,286	10,751	11,520	12,433	13,400
Intangibles	7,091	8,197	11,310	13,128	15,270	16,781
Goodwill	28	28	28	28	28	28
Financial assets at FVTPL	871	1,615	2,128	2,128	2,128	2,128
Other non-current assets	19,083	26,256	22,838	23,485	21,893	19,008
Total assets	175,408	185,357	201,270	221,507	236,755	254,470
Current liabilities	95,597	95,802	110,835	121,571	128,175	137,694
Short-term borrowings	8,721	10,425	12,221	10,000	10,000	10,000
Account payables	74,793	71,638	81,488	92,107	97,554	105,460
Other current liabilities	11,932	13,337	16,771	19,069	20,226	21,779
Lease liabilities	151	402	354	395	395	455
Non-current liabilities	17,683	24,339	21,926	20,761	19,354	18,034
Long-term borrowings	8,917	15,600	13,331	12,331	11,331	10,331
Convertible bonds	3,215	3,317	3,418	2,768	2,117	1,466
Deferred income	4,113	3,585	3,198	3,424	3,667	3,858
Other non-current liabilities	1,437	1,838	1,979	2,239	2,239	2,379
Total liabilities	113,280	120,141	132,762	142,332	147,529	155,728
Share capital	9,236	8,765	8,498	8,623	8,683	8,743
Capital surplus	10,907	6,690	6,927	8,782	10,310	11,660

Retained earnings	41,893	49,177	52,729	61,486	70,028	78,212
Other reserves	89	570	348	279	210	140
Total shareholders equity	62,124	65,201	68,501	79,169	89,230	98,755
Minority interest	4	15	8	5	(4)	(13)
Total equity and liabilities	175,408	185,357	201,270	221,507	236,755	254,470

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
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YE 31 Dec (RMB mn)

Operating

Profit before taxation	7,482	8,807	7,824	15,755	15,269	14,631
Depreciation & amortization	5,594	6,609	7,828	9,581	11,705	14,035
Tax paid	(757)	(554)	(801)	(2,284)	(2,138)	(2,048)
Change in working capital	24,154	(1,909)	3,521	(436)	27	(445)
Others	(1,156)	(642)	(618)	548	(779)	(912)
Net cash from operations	35,316	12,311	17,754	23,164	24,084	25,260

Investing

Capital expenditure	(13,091)	(16,301)	(16,713)	(12,842)	(12,565)	(12,599)
Acquisition of subsidiaries/ investments	(36,849)	(18,945)	(14,139)	0	0	0
Net proceeds from disposal of short-term investments	37,251	23,699	18,362	200	200	200
Others	1,515	1,042	2,039	3,461	3,159	2,960
Net cash from investing	(11,175)	(10,505)	(10,451)	(9,181)	(9,206)	(9,439)

Financing

Dividend paid	(5,340)	(647)	(2,563)	(4,716)	(4,599)	(4,407)
Net borrowings	(92)	8,925	526	(3,921)	(1,700)	(1,500)
Others	(4,200)	(11,412)	3,089	674	1,430	1,743
Net cash from financing	(9,632)	(3,133)	1,052	(7,963)	(4,870)	(4,164)

Net change in cash

Cash at the beginning of the year	13,591	27,908	26,899	35,272	41,292	51,300
Exchange difference	(192)	317	18	0	0	0
Cash at the end of the year	27,908	26,899	35,272	41,292	51,300	62,957

GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
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YE 31 Dec

Revenue	32.0%	0.7%	26.1%	16.6%	6.2%	7.4%
Gross profit	24.0%	20.7%	21.9%	28.9%	7.2%	4.6%
Operating profit	(16.1%)	4.6%	26.1%	106.3%	(2.4%)	(10.8%)
EBITDA	19.2%	19.1%	2.9%	57.0%	5.9%	6.0%
EBIT	22.5%	19.7%	(7.9%)	87.8%	(3.6%)	(4.3%)
Net profit	25.4%	22.9%	(15.1%)	91.9%	(2.5%)	(4.2%)

PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
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YE 31 Dec

Gross profit margin	16.2%	19.4%	18.7%	20.7%	20.9%	20.4%
Operating margin	3.0%	3.1%	3.1%	5.5%	5.1%	4.2%
EBITDA margin	9.9%	11.7%	9.6%	12.9%	12.9%	12.7%
Return on equity (ROE)	11.3%	13.0%	10.5%	18.2%	15.6%	13.4%

GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
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YE 31 Dec

Current ratio (x)	1.1	1.1	1.1	1.1	1.2	1.2
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VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
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YE 31 Dec

P/E	13.1	10.4	11.9	6.2	6.5	6.8
P/B	1.4	1.3	1.2	1.1	1.0	0.9
P/CFPS	2.5	7.0	4.7	3.6	3.5	3.4
Div yield (%)	3.9	2.9	3.1	5.6	5.4	5.1

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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