

Great Wall Motor (2333 HK)

New product cycle underpins the performance

In 1H20, GWM's sales volume was 395.1K units, a decrease of 20%YoY (Haval -26% YoY/ WEY -43% YoY/ pickup truck +45% YoY/ ORA -65% YoY. Total sales performance continued its MoM recovery path (-42% YoY in Mar/ -4% YoY in Apr/ +31% YoY in May/ +30% YoY in Jun). We upgrade our rating to BUY from Hold given 1) new product cycle in 2H20E and 2) optimistic pickup truck sales forecast.

- **The new generation (3rd new generation) Haval H6, which is based on the new B30 platform, will roll out in Aug 2020.** As the flagship model of Haval series, H6 has been ranked Chinese No.1 SUV for 85 consecutive months in terms of sales and accounted for 50% of the Haval sales in 2019. We believe the rollout of brand new H6 will mark the milestone for the new product cycle. Other recent new models such as Haval Dagou/ORA Baimao will also enrich its product portfolio.
- **Benefiting from the favorable local policy on pickup trucks (Chongqing, Shanghai, etc), the sales volume of GWM pickup trucks in 1H20 beat CMBI expectation.** Particularly, P-Series recorded over 15K units while Wingle also achieved 12K units in Jun 2020. From the industry perspective, the penetration rate of pickup trucks was only 1.8% in 2019. We believe the penetration rate will further rise given the policy support and new application scenario (PV). As the dominant player in the pickup trucks sector, GWM has continued to gain market share to 38% in 2019 from 33% in 2018. Given its product recognition, we expect the sales of its pickup truck will be 240K in 2020E, an increase of 61%YoY.
- **We slightly raised our sales volume forecast from 1.01mn to 1.02mn in 2020E (+11%YoY in 2H20E), reflecting excellent pickup truck performance and new product cycle.** In addition, we expect that the increase in the proportion of pickup sales will lift overall ASP by 1%YoY in 2020E. As a result, we raise our top-line forecast in 2020E by 2% to RMB95.0bn. Furthermore, we raise our bottom-line forecast by 5% to RMB3.7bn in 2020E to reflect the higher GPM forecast.
- **Re-rating opportunity surges prompted by the excellent pickups truck performance and the new product cycle.** Therefore, we raise our TP to HK\$7.5 (based on new 13.5x average 2020E/21E P/E) with an upside of 16.8% from initial TP HK\$4.7 (based on initial 11.0x 2020E P/E). Upgrade to BUY from Hold.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	99,230	96,211	94,951	105,719	113,409
YoY growth (%)	-1.92%	-3.04%	-1.31%	11.34%	7.27%
Net income (RMB mn)	5,207	4,497	3,682	5,209	6,295
EPS (RMB)	0.57	0.49	0.40	0.57	0.69
YoY growth (%)	4%	-14%	-18%	41%	21%
Consensus EPS(RMB)	0.57	0.49	0.42	0.56	0.62
P/E (x)	9.95	11.52	14.07	9.95	8.23
P/B (x)	0.99	0.95	0.94	0.88	0.83
Yield (%)	5.11%	4.40%	3.58%	5.06%	6.12%
ROE (%)	10.24%	8.41%	6.71%	9.13%	10.42%
Net gearing (%)	14%	net cash	net cash	net cash	net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Up)

Target Price	HK\$7.5
(Previous TP	HK\$4.7)
Up/Downside	+15.8%
Current Price	HK\$6.5

China Auto Sector

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Stock Data

Mkt Cap (HK\$ mn)	88,055
Avg 3 mths t/o (HK\$ mn)	158.86
52w High/Low (HK\$)	6.9/3.65
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.	6.33%
JPMorgan Chase & Co.	5.38%

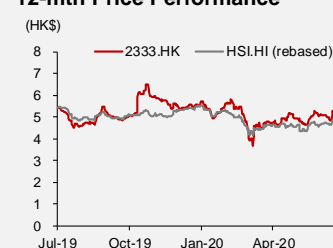
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	27.5%	24.3%
3-mth	40.5%	35.0%
6-mth	16.8%	35.1%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Deloitte Touche Tohmatsu

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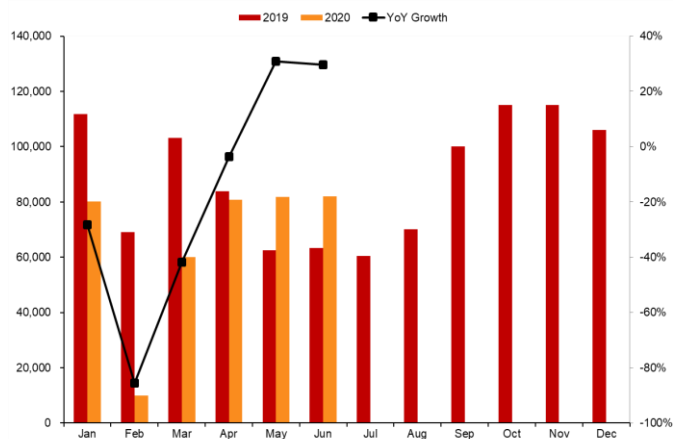
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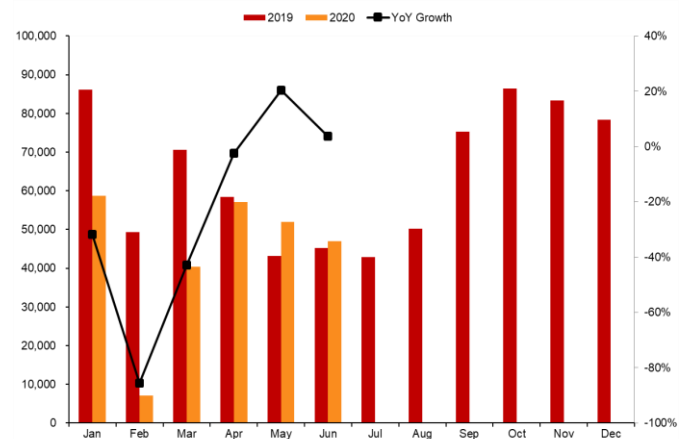
Focus chart

Figure 1: GWM's total sales volume



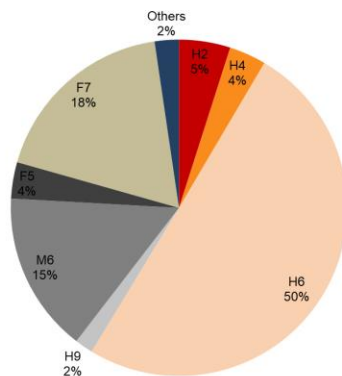
Source: Company data, CMBIS

Figure 2: Sales volume: Haval



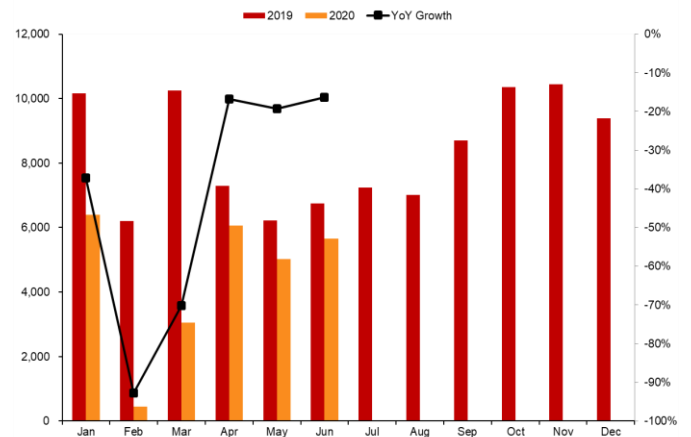
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Figure 3: H6 accounts for 50% of Haval family



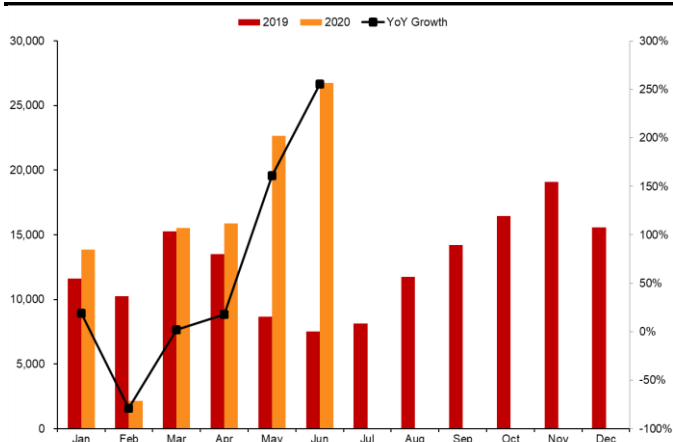
Source: Company data, CMBIS

Figure 4: Sales volume: WEY



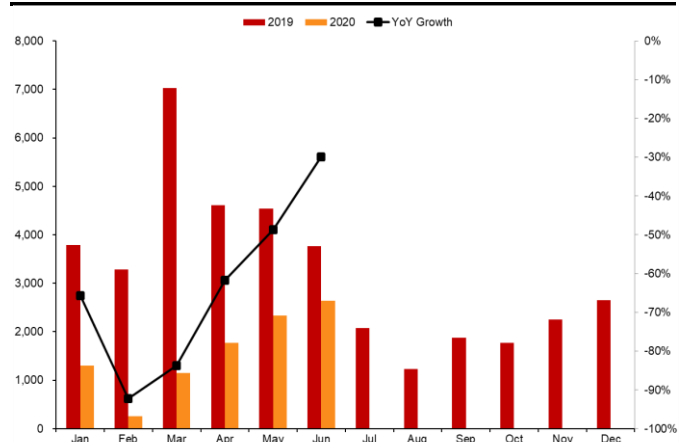
Source: Company data, CMBIS

Figure 5: Sales volume: Pickup truck



Source: Company data, CMBIS

Figure 6: Sales volume: ORA



Source: Company data, CMBIS

Earnings Revision

Figure 7: Earnings revision

(RMB mn)	New		Old		Change (%)	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	94,951	105,719	92,720	103,532	2%	2%
Gross profit	15,687	18,616	15,263	18,194	3%	2%
Operating profit	4,125	5,833	3,964	5,717	4%	2%
Net profit	3,682	5,209	3,514	5,090	5%	2%
EPS (RMB)	0.40	0.57	0.38	0.56	5%	2%
GPM	16.52%	17.61%	16.46%	17.57%	0.1 ppt	0.0 ppt
OPM	4.34%	5.52%	4.28%	5.52%	0.1 ppt	0.0 ppt
NPM	3.88%	4.93%	3.79%	4.92%	0.1 ppt	0.0 ppt

Source: CMBIS estimates

Figure 8: CMBIS estimates vs consensus

(RMB mn)	New		Consensus		Diff (%)	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	94,951	105,719	90,894	102,952	4%	3%
Gross profit	15,687	18,616	14,668	17,293	7%	8%
Operating profit	4,125	5,833	4,301	5,392	-4%	8%
Net profit	3,682	5,209	3,876	4,985	-5%	4%
EPS (RMB)	0.40	0.57	0.42	0.56	-3%	1%
GPM	16.52%	17.61%	16.14%	16.80%	0.4 ppt	0.8 ppt
OPM	4.34%	5.52%	5.01%	5.77%	-0.7 ppt	-0.2 ppt
NPM	3.88%	4.93%	4.26%	4.84%	-0.4 ppt	0.1 ppt

Source: Bloomberg, CMBIS estimates

Figure 9: Revenue breakdown

(RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Sales of automobiles	91,597	86,251	84,190	93,670	99,972
...YoY	-5%	-6%	-2%	11%	7%
Automobile parts and components	6,203	8,857	9,498	10,643	11,938
...YoY	38%	43%	7%	12%	12%
Parts and components	3,746	4,293	4,808	5,529	6,359
...YoY	18%	15%	12%	15%	15%
Mold and others	461	652	645	665	685
...YoY	-4%	41%	-1%	3%	3%
Services	957	2,585	2,585	2,844	3,128
...YoY	311%	170%	0%	10%	10%
Other	1,039	1,327	1,460	1,606	1,766
...YoY	69%	28%	10%	10%	10%
Interest income	1,389	1,031	1,263	1,405	1,500
...YoY	106%	-26%	22%	11%	7%
Total	99,189	96,139	94,951	105,719	113,409
...YoY	-2%	-3%	-1%	11%	7%

Source: Company data, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	99,230	96,211	94,951	105,719	113,409
Cost of sales	(81,864)	(80,023)	(79,264)	(87,102)	(92,556)
Gross profit	17,366	16,188	15,687	18,616	20,853
Taxes and levies	(3,627)	(3,169)	(3,133)	(3,489)	(3,856)
S&D expenses	(4,575)	(3,897)	(3,846)	(4,271)	(4,570)
Admin expenses	(1,676)	(1,955)	(1,946)	(2,167)	(2,268)
R&D expenses	(1,743)	(2,716)	(2,659)	(2,960)	(3,232)
Finance expenses	494	351	113	95	111
Credit/asset impairment	(318)	(553)	(570)	(423)	(454)
Other income	176	543	475	423	454
Share of PL of JV	0	0	0	0	0
Investment income	219	16	20	26	34
G/L from disposal	(82)	(30)	(16)	(17)	(19)
Non-operating income	253	342	248	350	423
Non-operating expenses	(8)	(18)	(10)	(12)	(18)
Profit before income tax	6,477	5,101	4,362	6,171	7,458
Income tax expense	(1,229)	(570)	(654)	(926)	(1,119)
Profit for the year	5,248	4,531	3,708	5,246	6,339
Less: MI	40	34	26	37	44
Net Profit	5,207	4,497	3,682	5,209	6,295

Cash flow

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Net income	5,207	4,497	3,682	5,209	6,295
D&A	2,878	3,428	3,650	3,872	4,204
Change in working capital	41,536	2,301	1,007	2,490	1,942
Others	(29,923)	(3,261)	(6,998)	(2,186)	(5,246)
Net cash from operating activities	19,698	6,965	1,341	9,386	7,194
Capex & investments	(4,216)	(4,391)	(4,179)	(4,536)	(4,492)
Associated companies	-	-	-	-	-
Others	(5,824)	(1,298)	-	-	-
Net cash from investing activities	(10,040)	(5,689)	(4,179)	(4,536)	(4,492)
Equity raised	-	-	-	-	-
Change of Debts	1,496	(12,513)	(284)	(140)	(213)
Dividend paid	(2,647)	(2,282)	(1,854)	(2,623)	(3,170)
Others	(5,350)	14,699	-	-	-
Net cash from financing activities	(6,501)	(95)	(2,138)	(2,763)	(3,382)
Net change in cash	3,157	1,181	(4,976)	2,087	(680)
Cash at the beginning	4,831	7,682	9,723	4,748	6,834
Exchange difference	(306)	861	-	-	-
Cash at the end	7,682	9,723	4,748	6,834	6,155
Less: pledged cash	-	-	-	-	-

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	45,674	44,593	46,719	48,240	49,179
Fixed asset	28,993	29,843	30,273	30,937	31,225
Intangible assets	3,391	4,710	4,844	4,950	4,996
Interest in JV/associate	-	-	-	-	-
Other non-current assets	13,290	10,040	11,602	12,353	12,959
Current assets	66,126	68,502	61,370	66,394	70,757
Cash	7,682	9,723	4,748	6,834	6,155
Account receivable	3,343	3,193	2,642	2,903	3,085
Inventory	4,445	6,237	6,605	7,574	8,048
Other current assets	50,656	49,348	47,375	49,082	53,469
Current liabilities	54,618	54,601	48,522	51,546	53,153
Borrowings	12,800	1,180	1,455	581	567
Account payables	29,401	35,461	31,705	34,841	37,023
Other payables	9,866	16,447	14,053	14,272	13,326
Tax payables	2,551	1,512	1,309	1,851	2,237
Non-current liabilities	4,493	4,097	4,097	4,374	4,528
Borrowings	2,158	1,265	1,592	1,440	1,242
Provisions	0	0	0	0	0
Deferred income tax	253	489	131	185	224
Others	2,082	2,343	2,374	2,749	3,062
Shareholders' equity	52,525	54,398	55,416	58,656	62,194
Minority Interest	164	0	55	59	62
Total net assets	52,689	54,398	55,471	58,714	62,256

Key ratios

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
Automobiles	92%	90%	89%	89%	88%
Parts and components	6%	9%	10%	10%	11%
Interest income	1%	1%	1%	1%	1%
Total	100%	100%	100%	100%	100%
P&L ratios (%)					
Gross profit margin	18%	17%	17%	18%	18%
Pre-tax margin	7%	5%	5%	6%	7%
Net margin	5%	5%	4%	5%	6%
Effective tax rate	19%	11%	15%	15%	15%
Balance sheet ratios					
Current ratio (x)	1.21	1.25	1.26	1.29	1.33
Quick ratio (x)	0.26	0.32	0.24	0.27	0.26
Cash ratio (x)	0.14	0.18	0.10	0.13	0.12
Debtors turnover days	12	12	12	12	12
Total debt / total equity	112%	108%	95%	95%	93%
Net debt / equity ratio (%)	14%	net cash	net cash	net cash	net cash
Returns (%)					
ROE	10%	8%	7%	9%	10%
ROA	5%	4%	4%	5%	6%
Per share					
EPS (RMB)	0.57	0.49	0.40	0.57	0.69
DPS (RMB)	0.29	0.25	0.20	0.29	0.35
BVPS (RMB)	5.75	5.96	6.07	6.43	6.81

Source: Company data, CMBIS estimates

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