

# Great Wall Motor (2333 HK)

## Earning surprise - 3Q19 performance updates

**KEY HIGHLIGHT:** On 25 Oct 2019, GWM announced its 3Q19 results with an earning surprise. Revenue achieved RMB21.2bn in 3Q19, up 18% YoY, slightly missed consensus estimate of RMB22.4bn. Profit attributable to the equity holders was RMB1.4bn, up 506% YoY, well above consensus estimate of RMB330mn. The earning surprise comes from margin improvement and cost control on S&D expense and finance expense. We upgrade our TP to HK\$5.86 but maintain HOLD rating given that the upside potential was less 10% threshold.

- **In 3Q19, total sales volume of GWM was 230,575 units, an increase of 12% YoY.** The YoY increase in sales volume was partially due to the low base in 2018. GWM's cumulative sales in the first three quarters of 2019 were 724,000 units, representing nearly 68% of its revised annual targets (1.07 mn). As entering into the 4Q19, the high base in 2018 will create more challenges in sales volume.
- **In 3Q19, GPM increased to 19% compared with 15% in 1H19 due to production cost and VAT reduction.** The retail price increase of Stage-6 vehicles also leads to margin improvement. In addition, great cost control on S&D expense and finance expense contributes to the bottom line surprise. We believe the margin will revert back to 16% to 17% range going forward while the cost control measure will only be effective in short-term period.
- **In Sep, GWM exported a total of 5,318 units, an increase of 20.3% YoY.** GWM's cumulative exports in the first three quarters of 2019 was a total of 50,754 units, up by 40.9% YoY. With the completion Tula factory in Russia, GWM has sold over 1K units in the Russian market for three consecutive months, with a growth rate of 458% YoY. However, we believe the percentage contribution from oversea market is still limited.
- **The share incentive plan was vetoed by H share shareholders on October 25, 2019.** The company launched the SIP which consists of two components, namely sales volume performance (65%) and net profit performance (35%). The specific sales volume targets in 2019E/20E/21E are not less than 1.07mn, 1.15mn and 1.25mn respectively whereas net profit targets in 2019E/20E/21E are not less than RMB4.2bn, RMB4.5bn and RMB5.0bn respectively.
- **We maintain our topline forecast and raised our earnings forecast in 2019E/20E/21E by 30%/17%/15% due to margin improvement and cost control.** Our TP is revised up from HK\$4.99 to HK\$5.86 (based on same 11x 2020E P/E) with an upside of 7.16%. Even though the Company has an excellent performance in short-term, we believe the stock price has limited upside given its current price. Reiterate HOLD.

**HOLD (Maintain)**

<b>Target Price</b>	<b>HK\$5.86</b>
(Previous TP)	HK\$4.99
<b>Up/Downside</b>	<b>+7.16%</b>
<b>Current Price</b>	<b>HK\$5.47</b>

### China Auto Sector

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### Stock Data

Mkt Cap (HK\$ mn)	69,775
Avg 3 mths t/o (HK\$ mn)	112.10
52w High/Low (HK\$)	7.26/ 4.02
Total Issued Shares (mn)	9,127.3

Source: Bloomberg

### Shareholding Structure

Baoding Innovation Great Wall Asset Management Company Limited	56.04%
HKSCC Nominees Limited	33.79%
China Securities Finance Corporation Limited	2.16%

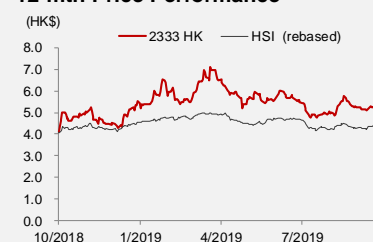
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	3.2%	0.8%
3-mth	-0.5%	5.9%
6-mth	-15.8%	-6.6%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

**Auditor: Deloitte Touche Tohmatsu**

### Related Reports

"Great Wall Motor (2333 HK) – Maintain growth in decline market" – 4 Oct 2019

## Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue (RMB mn)	101,170	99,230	94,816	97,633	106,807
YoY growth (%)	2.59%	-1.92%	-4.45%	2.97%	9.40%
Net income (RMB mn)	5,025	5,207	3,942	4,280	5,152
EPS (RMB)	0.55	0.57	0.43	0.47	0.56
YoY growth (%)	-52%	4%	-24%	9%	20%
P/E (x)	8.74	8.44	11.14	10.26	8.53
P/B (x)	0.89	0.84	0.81	0.77	0.73
Yield (%)	3.53%	6.02%	3.62%	3.93%	4.73%
ROE (%)	10.42%	10.24%	7.40%	7.73%	8.82%
Net gearing (%)	115%	98%	96%	92%	96%

Source: Company data, CMBIS estimates

## Focus Charts

Figure 1: GWM's quarterly sales volume

	Sep 2019	Growth rate YoY	Jan-Sep 2019	Growth rate YoY
Haval	75,253	22%	521,252	12%
WEY	8,701	-18%	69,835	-34%
Ora	1,877	165%	32,186	Na
GW pickup	13,680	3%	98,270	0%
Export	5,318	20%	50,754	41%

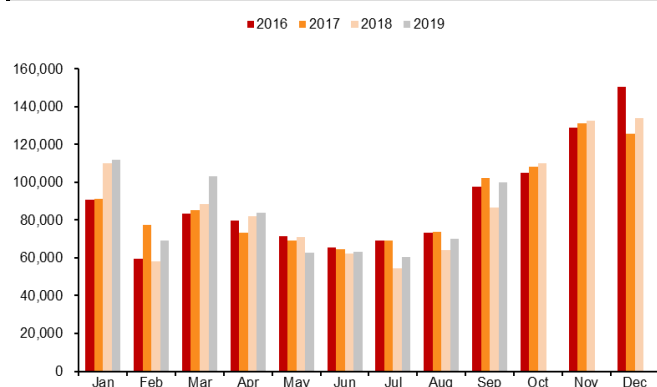
Source: Company, CMBIS

Figure 2: Earning revision

	2019E	Old 2020E	2021E	2019E	New 2020E	2021E	2019E	Change (%) 2020E	2021E
Revenue	94,816	97,633	106,807	94,816	97,633	106,807	0.0%	0.0%	0.0%
Net income	3,024	3,646	4,482	3,942	4,280	5,152	30.4%	17.4%	15.0%
EPS	33%	40%	49%	43%	47%	56%	30.4%	17.4%	15.0%
GPM	16.0%	16.5%	17.0%	16.2%	16.5%	17.0%	0.9%	0.0%	0.0%
OPM	3.8%	4.4%	5.0%	4.2%	4.4%	4.8%	10.7%	-0.9%	-3.0%
NPM	3.2%	3.7%	4.2%	4.2%	4.4%	4.8%	30.4%	17.4%	15.0%

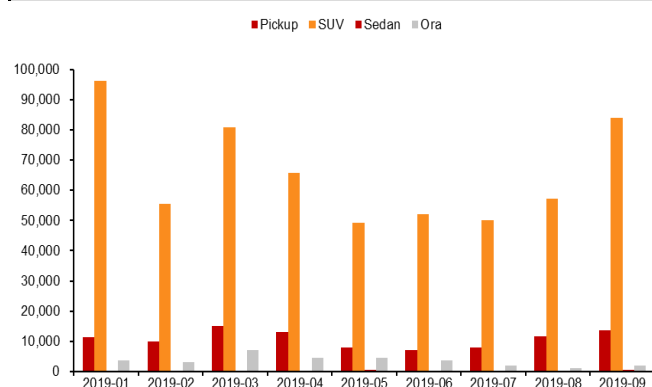
Source: Company, CMBIS

Figure 3: Quarterly sales volume



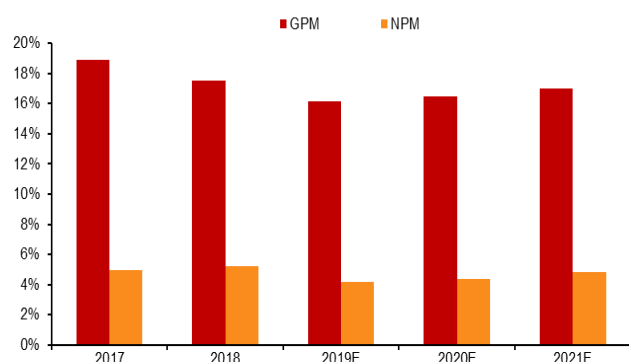
Source: Wind, CMBIS

Figure 4: Sales volume by vehicle category



Source: Wind, CMBIS

Figure 5: Revised margin trends



Source: Company, CMBIS

Figure 6: P/E Band



Source: Bloomberg, CMBIS

## Financial Summary

### Income statement

YE Dec 31 (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Revenue</b>	<b>101,170</b>	<b>99,230</b>	<b>94,816</b>	<b>97,633</b>	<b>106,807</b>
Cost of sales	(82,047)	(81,864)	(79,503)	(81,524)	(88,650)
<b>Gross profit</b>	<b>19,123</b>	<b>17,366</b>	<b>15,313</b>	<b>16,110</b>	<b>18,157</b>
Taxes and levies	(3,906)	(3,627)	(3,570)	(3,622)	(3,963)
Selling and distribution	(4,406)	(4,575)	(3,793)	(4,203)	(4,607)
Administrative expenses	(1,598)	(1,676)	(1,896)	(1,774)	(1,956)
Research and development	(3,365)	(1,743)	(2,386)	(2,086)	(2,282)
Finance expenses	(139)	494	407	71	58
Impairment losses on	(317)	(318)	(230)	(239)	(257)
Other income	166	176	284	233	255
Share of profits and losses	0	0	0	0	0
Investment income	124	219	263	342	445
G/L from changes in fair	171	(82)	242	251	270
Non-operating income	391	253	232	230	274
Non-operating expenses	(12)	(8)	(7)	(7)	(10)
<b>Profit before income tax</b>	<b>6,232</b>	<b>6,477</b>	<b>4,859</b>	<b>5,305</b>	<b>6,385</b>
Income tax expense	(1,190)	(1,229)	(881)	(986)	(1,186)
<b>Profit for the year</b>	<b>5,042</b>	<b>5,248</b>	<b>3,978</b>	<b>4,319</b>	<b>5,199</b>
Less: MI	16	40	36	39	47
<b>Net Profit</b>	<b>5,025</b>	<b>5,207</b>	<b>3,942</b>	<b>4,280</b>	<b>5,152</b>

### Cash flow

YE Dec 31 (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Net income</b>	<b>5,025</b>	<b>5,207</b>	<b>3,942</b>	<b>4,280</b>	<b>5,152</b>
D&A	3,548	4,227	4,675	4,795	5,121
Change in working capital	(3,064)	(7,067)	46,994	1,424	(1,935)
Others	(6,568)	17,331	(48,646)	2,185	(1,638)
<b>Net cash from operating</b>	<b>(1,059)</b>	<b>19,698</b>	<b>6,965</b>	<b>12,684</b>	<b>6,700</b>
Capex & investments	(10,280)	(11,044)	(5,689)	(5,467)	(5,340)
Associated companies	-	-	-	-	-
Others	7,207	1,004	-	-	-
<b>Net cash from investing</b>	<b>(3,073)</b>	<b>(10,040)</b>	<b>(5,689)</b>	<b>(5,467)</b>	<b>(5,340)</b>
Equity raised	-	-	-	-	-
Change of Debts	(50)	13,162	1,496	(4,079)	343
Dividend paid	(1,552)	(2,647)	(1,591)	(1,728)	(2,080)
Others	7,691	(17,016)	-	-	-
<b>Net cash from financing</b>	<b>6,089</b>	<b>(6,501)</b>	<b>(95)</b>	<b>(5,807)</b>	<b>(1,736)</b>
<b>Net change in cash</b>	<b>1,957</b>	<b>3,157</b>	<b>1,181</b>	<b>1,409</b>	<b>(376)</b>
Cash at the beginning	2,874	4,831	7,682	8,863	10,272
Exchange difference	-	(306)	-	-	-
<b>Cash at the end</b>	<b>4,831</b>	<b>7,682</b>	<b>8,863</b>	<b>10,272</b>	<b>9,896</b>
Less: pledged cash	-	-	-	-	-

### Balance sheet

YE Dec 31 (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Non-current assets</b>	<b>41,253</b>	<b>45,674</b>	<b>44,628</b>	<b>43,455</b>	<b>43,351</b>
Fixed asset	27,718	28,993	28,023	26,529	24,881
Intangible assets	3,268	3,391	3,223	2,985	2,799
Interest in joint	-	-	-	-	-
Other non-current assets	10,267	13,290	13,382	13,941	15,671
<b>Current assets</b>	<b>69,294</b>	<b>66,126</b>	<b>70,373</b>	<b>75,956</b>	<b>85,050</b>
Cash	4,831	7,682	8,863	10,272	9,896
Account receivable	49,949	3,343	7,950	10,190	14,775
Inventory	5,575	4,445	3,975	4,529	4,925
Other current assets	8,939	50,656	49,585	50,964	55,454
<b>Current liabilities</b>	<b>58,882</b>	<b>54,618</b>	<b>56,517</b>	<b>58,056</b>	<b>63,295</b>
Borrowings	13,038	12,800	8,533	8,787	9,613
Account payables	31,842	29,401	39,752	40,762	44,325
Other payables	11,694	9,866	6,753	6,851	7,172
Tax payables	2,308	2,551	1,480	1,656	2,186
<b>Non-current liabilities</b>	<b>2,408</b>	<b>4,493</b>	<b>4,307</b>	<b>4,461</b>	<b>4,766</b>
Borrowings	424	2158	2345	2435	2520
Provisions	0	0	0	0	0
Deferred income tax	21	253	66	74	111
Others	1,963	2,082	1,896	1,953	2,136
<b>Minority Interest</b>	<b>123</b>	<b>164</b>	<b>167</b>	<b>176</b>	<b>186</b>
<b>Total net assets</b>	<b>49,134</b>	<b>52,525</b>	<b>54,009</b>	<b>56,717</b>	<b>60,153</b>
<b>Shareholders' equity</b>	<b>49,134</b>	<b>52,525</b>	<b>54,009</b>	<b>56,717</b>	<b>60,153</b>

### Key ratios

YE Dec 31	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Sales mix</b>					
Sales of automobiles	95%	92%	91%	90%	89%
Sales of automobile	4%	6%	7%	8%	8%
	1%	1%	2%	2%	3%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>P&amp;L ratios (%)</b>					
Gross profit margin	19%	18%	16%	17%	17%
Pre-tax margin	6%	7%	5%	5%	6%
Net margin	5%	5%	4%	4%	5%
Effective tax rate	19%	19%	18%	19%	19%
<b>Balance sheet ratios</b>					
Current ratio (x)	1.18	1.21	1.25	1.31	1.34
Quick ratio (x)	0.94	0.26	0.35	0.41	0.44
Cash ratio (x)	0.08	0.14	0.16	0.18	0.16
Debtors turnover days	180	12	37	46	61
Debt /equity ratio	124%	112%	112%	110%	113%
Net debt / equity ratio	115%	98%	96%	92%	96%
<b>Returns (%)</b>					
ROE	10%	10%	7%	8%	9%
ROA	6%	5%	4%	4%	5%
<b>Per share</b>					
EPS (RMB)	0.55	0.57	0.43	0.47	0.56
DPS (RMB)	0.17	0.29	0.17	0.19	0.23
BVPS (RMB)	5.38	5.75	5.92	6.21	6.59

Source: Company data, CMBIS

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