

Great Wall Motor (2333 HK)

3Q23 earnings a strong beat

Maintain BUY. Great Wall's 3Q23 net profit significantly beat market expectations on strong gross margin resulting from cost reduction from suppliers, exports and better-than-expected PHEV margins. Such profitability has underscored our previous argument that Great Wall's resilient margins could provide more room for EV transition. We revise up our FY23-24E earnings forecasts accordingly. Meanwhile, we turn a bit more cautious on Great Wall's valuation amid rising competition and slower-than-expected BEV model rollouts.

■ **3Q23 earnings a strong beat.** Great Wall's 3Q23 net profit tripled QoQ to RMB 3.6bn, largely due to its 21.7% gross margin (+4.3 pts QoQ). Management attributes such growth partially to the cost reduction of about RMB1bn from parts suppliers (2 pts contribution to the GPM or RMB 2,900 per vehicle). Still, such gross-margin increase also means much better profitability for Great Wall's PHEVs than we had expected. Great Wall's SG&A and R&D expenses in 3Q23 were also RMB400mn lower than our prior forecast.

■ **Better-than-expected profitability provides more room for EV transition.** It appears to us that Great Wall's vertical integration has aided its better-than-expected PHEV gross margin. It could also be a harvest season for Great Wall's overseas business after exporting vehicles for more than 20 years. Management expects overseas gross margin could be 5-10 pts higher than that in China. This could provide more room for Great Wall's PHEV attempts, after sales of the Wey *Lanshan* and Haval *Xiaolong Max* still trail its rival models. On the other hand, Great Wall will still lack competitive BEV models at least throughout 2024, as the company plans to launch its 800V platform in 2026. Management believes that fast-charging family BEVs will only become the mainstream from 2027.

■ **Earnings/Valuation.** It appears to us that such PHEV margins could be sustainable after earnings beat for two consecutive quarters. Therefore, we revise up FY23E net profit forecast to RMB7.3bn, after a strong 3Q23, implying RMB2.3bn for 4Q23E to account for year-end bonus and dealers' rebates. We raise our FY24E net profit by 68% to RMB8.2bn. We maintain our BUY rating and lift our target price from HK\$12.00 to HK\$13.00, based on 13x (prior 20x) our revised FY24E earnings. Key risks to our rating and target price include lower sales volume and margins, especially for NEVs, slower tech transformation than we expect, and sector de-rating.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	136,405	137,340	177,091	197,750	214,756
YoY growth (%)	32.0	0.7	28.9	11.7	8.6
Net income (RMB mn)	6,726	8,266	7,288	8,152	8,893
EPS (RMB)	0.73	0.91	0.83	0.92	0.99
YoY growth (%)	25.4	22.9	(11.8)	11.9	9.1
P/E (x)	12.0	10.5	12.0	10.8	10.0
P/B (x)	1.3	1.3	1.3	1.2	1.1
Yield (%)	1.6	2.5	3.1	3.5	3.7
ROE (%)	11.3	13.0	10.9	11.2	11.2
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$ 13.00
(Previous TP	HK\$ 12.00)
Up/Downside	+20.1%
Current Price	HK\$ 10.82

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Stock Data

Mkt Cap (HK\$ mn)	91,930
Avg 3 mths t/o (HK\$ mn)	242
52w High/Low (HK\$)	12.66/7.77
Total Issued Shares (mn)	8,496
Source: Bloomberg	

Shareholding Structure

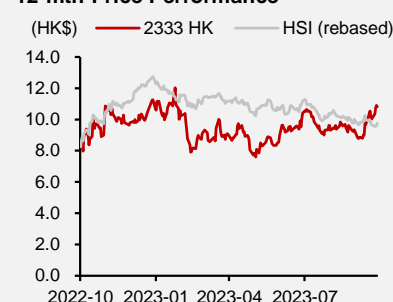
Wei Jianjun	60.7%
Others	39.3%
Source: HKEx	

Share Performance

	Absolute	Relative
1-mth	16.5%	17.7%
3-mth	8.0%	19.4%
6-mth	19.3%	31.6%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Deloitte

Related Report

["Great Wall Motor – Resilient margins pave way for EV transition" - 31 Aug 2023](#)

Figure 1: Quarterly results

RMB mn	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	YoY	QoQ
Sales volume (units)	283,500	235,025	283,788	265,210	219,968	298,828	344,819	21.5%	15.4%
ASP (RMB)	118,587	121,327	131,599	142,753	132,012	136,977	143,648	9.2%	4.9%
Revenue	33,619	28,515	37,346	37,860	29,039	40,933	49,532	32.6%	21.0%
Gross profit	5,776	5,644	8,392	6,788	4,666	7,124	10,728	27.8%	50.6%
R&D expenses	(1,324)	(1,853)	(1,530)	(1,738)	(1,534)	(1,975)	(1,992)	30.2%	0.9%
SG&A expenses	(2,229)	(2,200)	(2,884)	(3,456)	(2,515)	(2,810)	(2,876)	-0.3%	2.3%
Operating profit	1,341	3,962	2,743	(79)	(71)	1,296	4,130	50.6%	218.6%
Net profit	1,634	3,967	2,560	106	174	1,187	3,634	41.9%	206.1%
Gross margin	17.2%	19.8%	22.5%	17.9%	16.1%	17.4%	21.7%	-0.8 ppt	4.3 ppt
Operating margin	4.0%	13.9%	7.3%	-0.2%	-0.2%	3.2%	8.3%	1.0 ppt	5.2 ppt
Net margin	4.9%	13.9%	6.9%	0.3%	0.6%	2.9%	7.3%	0.5 ppt	4.4 ppt

Source: Company data, CMBIGM estimates

Figure 2: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	177,091	197,750	214,756	171,453	198,906	233,797	3.3%	-0.6%	-8.1%
Gross Profit	32,983	36,030	38,324	28,389	32,232	37,759	16.2%	11.8%	1.5%
Operating Profit	7,862	8,511	9,393	2,799	4,430	7,171	180.9%	92.1%	31.0%
Net profit	7,288	8,152	8,893	3,245	4,863	7,205	124.6%	67.6%	23.4%
Gross Margin	18.6%	18.2%	17.8%	16.6%	16.2%	16.2%	2.1 ppt	2.0 ppt	1.7 ppt
Operating Margin	4.4%	4.3%	4.4%	1.6%	2.2%	3.1%	2.8 ppt	2.1 ppt	1.3 ppt
Net Margin	4.1%	4.1%	4.1%	1.9%	2.4%	3.1%	2.2 ppt	1.7 ppt	1.1 ppt

Source: CMBIGM estimates

Figure 3: CMBI estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	177,091	197,750	214,756	167,889	206,172	230,741	5.5%	-4.1%	-6.9%
Gross Profit	32,983	36,030	38,324	29,466	36,901	42,323	11.9%	-2.4%	-9.4%
Operating Profit	7,862	8,511	9,393	4,837	7,383	9,545	62.5%	15.3%	-1.6%
Net profit	7,288	8,152	8,893	5,558	7,351	9,102	31.1%	10.9%	-2.3%
Gross Margin	18.6%	18.2%	17.8%	17.6%	17.9%	18.3%	1.1 ppt	0.3 ppt	-0.5 ppt
Operating Margin	4.4%	4.3%	4.4%	2.9%	3.6%	4.1%	1.6 ppt	0.7 ppt	0.2 ppt
Net Margin	4.1%	4.1%	4.1%	3.3%	3.6%	3.9%	0.8 ppt	0.6 ppt	0.2 ppt

Source: Bloomberg, CMBIGM estimates

Financial Summary

Income

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	136,405	137,340	177,091	197,750	214,756
Cost of sales	(114,367)	(110,739)	(144,109)	(161,719)	(176,432)
Gross profit	22,037	26,601	32,983	36,030	38,324
Selling exp.	(5,192)	(5,876)	(7,395)	(8,083)	(8,327)
Admin exp. (ex. R&D)	(4,043)	(4,893)	(4,636)	(5,335)	(5,654)
R&D exp.	(4,490)	(6,445)	(7,994)	(8,877)	(9,494)
Others	(1,944)	(1,419)	(5,095)	(5,224)	(5,457)
Operating profit	6,369	7,967	7,862	8,511	9,393
Non-operating income	1,161	886	450	900	900
Non-operating exp.	(47)	(46)	(80)	(50)	(50)
Pre-tax profit	7,482	8,807	8,232	9,361	10,243
Tax	(757)	(554)	(947)	(1,217)	(1,332)
Minority interests	1	13	2	8	(18)
Net profit	6,726	8,266	7,288	8,152	8,893

Cash flow

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Profit before taxation	7,482	8,807	8,232	9,361	10,243
Depreciation/amortization	5,083	6,347	7,874	9,474	11,414
Change in working capital	24,154	(1,909)	(187)	3,823	1,470
Others	(1,403)	(934)	3,610	(1,182)	(1,032)
Net cash from operating	35,316	12,311	19,529	21,476	22,094
Capex	(13,091)	(16,301)	(11,895)	(11,637)	(11,198)
Others	1,916	5,796	471	2,195	2,192
Net cash from investing	(11,175)	(10,505)	(11,424)	(9,442)	(9,005)
Net borrowings	(92)	8,925	(3,225)	(3,000)	(3,000)
Dividend paid	(5,878)	(1,226)	(3,091)	(3,060)	(3,201)
Others	(3,662)	(10,832)	(1,500)	950	950
Net cash from financing	(9,632)	(3,133)	(7,816)	(5,110)	(5,251)
Net change in cash	14,509	(1,327)	290	6,925	7,837
Cash at beginning of the year	13,591	27,908	26,899	27,188	34,113
FX effect	(192)	317	-	-	-
Cash at the end of the year	27,908	26,899	27,188	34,113	41,950

Balance sheet

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Current assets	108,366	107,681	118,700	132,305	146,714
Cash & equivalents	33,048	35,773	36,063	42,988	50,825
Account receivables	41,497	33,919	43,666	48,760	52,954
Inventories	13,966	22,375	23,689	24,369	26,586
Other current assets	19,854	15,614	15,282	16,188	16,350
Non-current assets	67,042	77,677	81,222	83,929	84,269
PP&E	27,441	26,949	25,760	24,302	22,603
Intangibles	7,091	8,197	9,191	10,046	10,501
Equity investments	9,524	10,286	11,970	13,042	14,138
Other non-current assets	22,986	32,245	34,300	36,538	37,027
Total assets	175,408	185,357	199,922	216,233	230,984
Current liabilities	95,597	95,802	108,525	120,294	130,079
Bank borrowings	8,721	10,425	10,000	10,000	10,000
Payables	74,793	71,638	82,912	93,044	101,509
Contract liabilities	7,388	7,753	9,704	10,836	11,767
Other current liabilities	4,695	5,987	5,910	6,414	6,803
Non-current liabilities	17,683	24,339	22,256	20,122	17,978
Bank borrowings	8,917	15,600	14,600	13,600	12,600
Deferred income	4,113	3,585	3,713	3,830	3,937
Other non-current liabilities	4,652	5,154	3,942	2,692	1,441
Total liabilities	113,280	120,141	130,781	140,416	148,056
Share capital	9,236	8,765	8,538	8,656	8,774
Reserves	52,553	56,101	60,326	66,962	74,005
Minority interests	4	15	12	4	22
Shareholders' equity	62,128	65,216	69,141	75,817	82,927
Total equity and liabilities	175,408	185,357	199,922	216,233	230,984

Key ratios

YE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Sales mix (%)					
Sales of vehicles	88.9	88.8	87.8	88.4	88.3
Sales of parts	5.0	5.8	7.6	7.3	7.5
Sales of moulds	1.6	1.6	1.4	1.4	1.3
Others	4.4	3.8	3.2	2.9	2.9
Growth (%)					
Revenue	32.0	0.7	28.9	11.7	8.6
Gross profit	24.0	20.7	24.0	9.2	6.4
Operating profit	10.7	25.1	(1.3)	8.3	10.4
Net profit	25.4	22.9	(11.8)	11.9	9.1
Profit & loss ratio (%)					
Gross margin	16.2	19.4	18.6	18.2	17.8
Operating margin	4.7	5.8	4.4	4.3	4.4
Net profit margin	4.9	6.0	4.1	4.1	4.1
Balance sheet ratio					
Net cash (debt)/total equity (x)	0.2	0.1	0.2	0.3	0.3
Current ratio (x)	1.1	1.1	1.1	1.1	1.1
Receivable turnover days	111	90	90	90	90
Inventory turnover days	45	74	60	55	55
Payable turnover days	239	236	210	210	210
Profitability (%)					
ROE	11.3	13.0	10.9	11.2	11.2
ROA	4.1	4.6	3.8	3.9	4.0
Per share data (RMB)					
EPS	0.73	0.91	0.83	0.92	0.99
DPS	0.37	0.28	0.37	0.41	0.45

Source: Company data, CMBIGM estimates

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