

Great Wall Motor (2333 HK)

Surging PHEV sales at cost of FY23E net profit

We expect Great Wall's FY23E net profit to be significantly lower than current consensus, dragged by rising PHEV sales starting from 2Q23. More importantly, we raise our FY23E NEV sales volume forecast for Great Wall to 0.32mn units despite the ORA miss, and expect its NEV market share to surpass the industry average in 4Q23E, which could be a positive catalyst for its share price.

■ **We project 2Q23E net profit to be RMB 67mn.** We project Great Wall's revenue to rise 45% YoY in 2Q23E, driven by 29% YoY sales-volume growth and 12% YoY ASP increase. We expect 2Q23E GPM to narrow by 2.4 pts QoQ to 13.7% amid higher PHEV sales and wider discounts. Therefore, SG&A cost reduction would be a key to Great Wall's net profit in 2Q23. We project its R&D, SG&A and business tax combined to be 14.4% of revenue, significantly lower than 17.2% in 1Q23, due to higher revenue and cost control. Accordingly, we estimate Great Wall's 2Q23E net profit to fall 61% QoQ to RMB 67mn.

■ **Rising NEV penetration at a cost of FY23E net profit.** We lower our FY23E net profit by 72% to RMB 1.6bn, implying 2H23E NP of RMB 1.4bn, as we project 2H23E GPM to be at a similar level as 2Q23E, assuming little pricing deterioration and PHEV sales ramp-up to lift GPM in 2H23E. We also expect the automaker to cut its SG&A and even R&D expenses for better profitability.

On the other hand, we estimate Great Wall's NEV sales volume in FY23E to more than double YoY to 0.32mn units (vs. 0.29mn units projected in Dec 2022), or 26% of our projected total sales volume (1.25mn units), or 31% of its total passenger-vehicle (PV) sales volume. In fact, NEVs took up 29% of Great Wall's PV sales volume in May 2023. We expect Great Wall's NEV market share to surpass the industry average in 4Q23E, which could be a positive catalyst for its share price.

■ **Earnings/Valuation.** We expect Great Wall's NEV profitability to improve in FY24E with a net profit forecast of RMB 4.8bn, or 22% lower than our prior estimates. We maintain our BUY rating and target price of HK\$12.00, based on 20x (prior 16x FY23E) our revised FY24E P/E. We roll over our valuation to FY24 as we believe FY23 could be a transition period for Great Wall's electrification especially for PHEVs. We believe a higher valuation is justified, should Great Wall succeed in EV 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 sector de-rating.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	136,405	137,340	175,986	194,626	217,797
YoY growth (%)	32.0	0.7	28.1	10.6	11.9
Net income (RMB mn)	6,726	8,266	1,623	4,800	7,339
EPS (RMB)	0.73	0.91	0.18	0.54	0.82
YoY growth (%)	25.4	22.9	(80.4)	195.7	52.9
P/E (x)	9.6	8.3	41.1	14.0	9.3
P/B (x)	1.0	1.0	1.0	0.9	0.9
Yield (%)	1.6	2.5	0.8	2.3	3.5
ROE (%)	11.3	13.0	2.4	6.8	9.6
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$ 12.00
(Previous TP	HK\$ 12.00)
Up/Downside	+38.6%
Current Price	HK\$ 8.66

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Stock Data

Mkt Cap (HK\$ mn)	73,554
Avg 3 mths t/o (HK\$ mn)	322
52w High/Low (HK\$)	17.96/6.90
Total Issued Shares (mn)	8,494
Source: Bloomberg	

Shareholding Structure

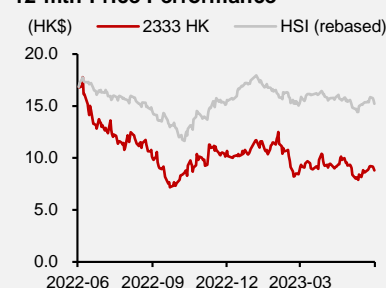
Wei Jianjun	60.7%
Others	39.3%
Source: HKEx	

Share Performance

	Absolute	Relative
1-mth	-4.1%	-2.9%
3-mth	-5.7%	-0.5%
6-mth	-14.9%	-11.3%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Deloitte

Related Report

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Figure 1: Quarterly results

RMB mn	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23E	YoY	QoQ
Sales volume (units)	283,500	235,025	283,788	265,210	219,968	304,200	29.4%	38.3%
ASP (RMB)	118,587	121,327	131,599	142,753	132,012	136,095	12.2%	3.1%
Revenue	33,619	28,515	37,346	37,860	29,039	41,400	45.2%	42.6%
Gross profit	5,776	5,644	8,392	6,788	4,666	5,672	0.5%	21.5%
R&D expenses	(1,324)	(1,853)	(1,530)	(1,738)	(1,534)	(1,697)	-8.4%	10.6%
SG&A expenses	(2,229)	(2,200)	(2,884)	(3,456)	(2,515)	(3,022)	37.4%	20.2%
Operating profit	1,341	3,962	2,743	(79)	(71)	(130)	N/A	N/A
Net profit	1,634	3,967	2,560	106	174	67	-98.3%	-61.4%
Gross margin	17.2%	19.8%	22.5%	17.9%	16.1%	13.7%	-6.1 ppt	-2.4 ppt
Operating margin	4.0%	13.9%	7.3%	-0.2%	-0.2%	-0.3%	-14.2 ppt	-0.1 ppt
Net margin	4.9%	13.9%	6.9%	0.3%	0.6%	0.2%	-13.7 ppt	-0.4 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	175,986	194,626	217,797	176,585	200,446	224,613	-0.3%	-2.9%	-3.0%
Gross Profit	24,795	30,641	36,226	30,399	33,978	40,028	-18.4%	-9.8%	-9.5%
Operating Profit	913	4,419	7,321	5,370	5,890	8,378	-83.0%	-25.0%	-12.6%
Net profit	1,623	4,800	7,339	5,728	6,140	8,289	-71.7%	-21.8%	-11.5%
Gross Margin	14.1%	15.7%	16.6%	17.2%	17.0%	17.8%	-3.1 ppt	-1.2 ppt	-1.2 ppt
Operating Margin	0.5%	2.3%	3.4%	3.0%	2.9%	3.7%	-2.5 ppt	-0.7 ppt	-0.4 ppt
Net Margin	0.9%	2.5%	3.4%	3.2%	3.1%	3.7%	-2.3 ppt	-0.6 ppt	-0.3 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	175,986	194,626	217,797	174,047	207,466	229,821	1.1%	-6.2%	-5.2%
Gross Profit	24,795	30,641	36,226	30,651	36,757	41,821	-19.1%	-16.6%	-13.4%
Operating Profit	913	4,419	7,321	5,253	7,384	8,677	-82.6%	-40.1%	-15.6%
Net profit	1,623	4,800	7,339	6,294	7,637	8,743	-74.2%	-37.1%	-16.1%
Gross Margin	14.1%	15.7%	16.6%	17.6%	17.7%	18.2%	-3.5 ppt	-2.0 ppt	-1.6 ppt
Operating Margin	0.5%	2.3%	3.4%	3.0%	3.6%	3.8%	-2.5 ppt	-1.3 ppt	-0.4 ppt
Net Margin	0.9%	2.5%	3.4%	3.6%	3.7%	3.8%	-2.7 ppt	-1.2 ppt	-0.4 ppt

Source: Bloomberg, CMBIGM estimates

Financial Summary

Income

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	136,405	137,340	175,986	194,626	217,797
Cost of sales	(114,367)	(110,739)	(151,191)	(163,985)	(181,571)
Gross profit	22,037	26,601	24,795	30,641	36,226
Selling exp.	(5,192)	(5,876)	(6,789)	(7,275)	(7,470)
Admin exp. (ex. R&D)	(4,043)	(4,893)	(5,309)	(5,587)	(6,037)
R&D exp.	(4,490)	(6,445)	(8,045)	(9,306)	(10,915)
Others	(1,944)	(1,419)	(3,740)	(4,053)	(4,484)
Operating profit	6,369	7,967	913	4,419	7,321
Non-operating income	1,161	886	900	900	900
Non-operating exp.	(47)	(46)	(50)	(50)	(50)
Pre-tax profit	7,482	8,807	1,763	5,269	8,171
Tax	(757)	(554)	(141)	(474)	(817)
Minority interests	1	13	2	5	(15)
Net profit	6,726	8,266	1,623	4,800	7,339

Cash flow

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Profit before taxation	7,482	8,807	1,763	5,269	8,171
Depreciation/amortization	5,083	6,347	7,915	9,631	11,794
Change in working capital	24,154	(1,909)	2,979	2,366	1,154
Others	(1,403)	(934)	3,601	1,025	556
Net cash from operating	35,316	12,311	16,257	18,292	21,675
Capex	(13,091)	(16,301)	(12,516)	(13,707)	(14,275)
Others	1,916	5,796	511	2,195	2,192
Net cash from investing	(11,175)	(10,505)	(12,004)	(11,512)	(12,083)
Net borrowings	(92)	8,925	(3,225)	(3,000)	(3,000)
Dividend paid	(5,878)	(1,226)	(260)	(1,655)	(2,712)
Others	(3,662)	(10,832)	(1,500)	950	950
Net cash from financing	(9,632)	(3,133)	(4,985)	(3,705)	(4,762)
Net change in cash	14,509	(1,327)	(732)	3,076	4,830
Cash at beginning of the year	13,591	27,908	26,899	26,167	29,243
FX effect	(192)	317	-	-	-
Cash at the end of the year	27,908	26,899	26,167	29,243	34,073

Balance sheet

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Current assets	108,366	107,681	119,823	127,049	140,460
Cash & equivalents	33,048	35,773	35,042	38,117	42,948
Account receivables	41,497	33,919	43,394	47,990	53,703
Inventories	13,966	22,375	24,853	24,710	27,360
Other current assets	19,854	15,614	16,534	16,232	16,449
Non-current assets	67,042	77,677	82,732	87,742	91,169
PP&E	27,441	26,949	25,760	24,302	22,603
Intangibles	7,091	8,197	9,336	10,562	11,652
Equity investments	9,524	10,286	12,200	13,273	14,368
Other non-current assets	22,986	32,245	35,435	39,605	42,546
Total assets	175,408	185,357	202,554	214,791	231,630
Current liabilities	95,597	95,802	112,822	121,517	133,408
Bank borrowings	8,721	10,425	10,000	10,000	10,000
Payables	74,793	71,638	86,986	94,348	104,466
Contract liabilities	7,388	7,753	9,643	10,664	11,934
Other current liabilities	4,695	5,987	6,193	6,505	7,008
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	135,078	141,639	151,385
Share capital	9,236	8,765	8,538	8,656	8,774
Reserves	52,553	56,101	58,661	64,293	71,321
Minority interests	4	15	13	8	23
Shareholders' equity	62,128	65,216	67,476	73,152	80,244
Total equity and liabilities	175,408	185,357	202,554	214,791	231,630

Key ratios

YE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Sales mix (%)					
Sales of vehicles	88.9	88.8	89.9	90.6	91.3
Sales of parts	5.0	5.8	5.2	4.9	4.5
Sales of moulds	1.6	1.6	1.5	1.4	1.3
Others	4.4	3.8	3.3	3.1	2.9
Growth (%)					
Revenue	32.0	0.7	28.1	10.6	11.9
Gross profit	24.0	20.7	(6.8)	23.6	18.2
Operating profit	10.7	25.1	(88.5)	384.2	65.6
Net profit	25.4	22.9	(80.4)	195.7	52.9
Profit & loss ratio (%)					
Gross margin	16.2	19.4	14.1	15.7	16.6
Operating margin	4.7	5.8	0.5	2.3	3.4
Net profit margin	4.9	6.0	0.9	2.5	3.4
Balance sheet ratio					
Net cash (debt)/total equity (x)	0.2	0.1	0.2	0.2	0.3
Current ratio (x)	1.1	1.1	1.1	1.0	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	2.4	6.8	9.6
ROA	4.1	4.6	0.8	2.3	3.3
Per share data (RMB)					
EPS	0.73	0.91	0.18	0.54	0.82
DPS	0.37	0.28	0.08	0.24	0.37

Source: Company data, CMBIGM estimates

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