

China / Hong Kong Company Update

Great Wall Motor

Bloomberg: 2333 HK EQUITY | 601633 CH Equity | Reuters: 2333.HK | 601633.SS

Refer to important disclosures at the end of this report

DBS Group Research . Equity

1 Apr 2022

H: BUY

Last Traded Price (31 Mar 2022): HK\$12.56 (HSI : 21,997)
Price Target 12-mth: HK\$24.00 (91.1% upside) (Prev HK\$26.00)

A: HOLD

Last Traded Price (31 Mar 2022): RMB27.40 (CSI300 Index : 4,223)
Price Target 12-mth: RMB29.00 (5.8% upside) (Prev RMB35.00)

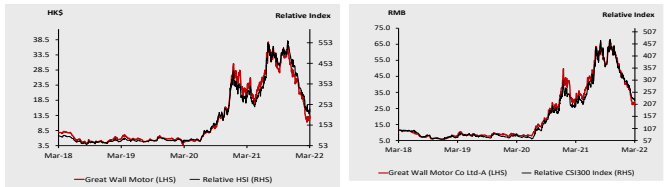
Analyst

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What's New

- Fine-tuning NEV strategy to better ride on rapid industry expansion especially in the high-end segment
- Improving product mix supports margin recovery
- Export strategy intact despite short-term volatility
- Maintain BUY; HK\$24 TP based on 18x FY22F PE

Price Relative



Forecasts and Valuation (H Shares)

FY Dec (RMBm)	2020A	2021A	2022F	2023F
Turnover	103,308	136,405	180,624	227,774
EBITDA	11,502	12,627	15,745	20,896
Pre-tax Profit	6,227	7,482	11,176	15,213
Net Profit	5,362	6,726	10,058	13,691
Net Pft (Pre Ex) (core profit)	5,362	6,726	10,058	13,691
Net Profit Gth (Pre-ex) (%)	19.2	25.4	49.5	36.1
EPS (RMB)	0.59	0.73	1.09	1.48
EPS (HK\$)	0.73	0.90	1.34	1.83
Core EPS (RMB)	0.59	0.73	1.09	1.48
Core EPS (HK\$)	0.73	0.90	1.34	1.83
EPS Gth (%)	19.2	24.0	49.5	36.1
Core EPS Gth (%)	19.2	24.0	49.5	36.1
Diluted EPS (HK\$)	0.72	0.90	1.34	1.83
DPS (HK\$)	0.35	0.46	0.68	0.92
BV Per Share (HK\$)	7.72	8.31	9.19	10.34
PE (X)	17.3	14.0	9.3	6.9
CorePE (X)	17.3	14.0	9.3	6.9
P/Cash Flow (X)	17.9	2.7	7.8	5.9
P/Free CF (X)	nm	4.2	nm	90.3
EV/EBITDA (X)	8.4	6.2	5.3	4.2
Net Div Yield (%)	2.8	3.6	5.4	7.3
P/Book Value (X)	1.6	1.5	1.4	1.2
Net Debt/Equity (X)	0.1	CASH	CASH	CASH
ROAE (%)	9.6	11.3	15.4	18.7
Earnings Rev (%)			(8)	(5)
Consensus EPS (RMB)			1.07	1.44
Other Broker Recs:		B:34	S:2	H:4

Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

Balancing act to protect profitability

Investment Thesis

NEV business has bright prospects. Great Wall Motor (GWM) NEV sales ratio increased from 4% in FY19 to c.11% in FY21. However, Jan-Apr 22 NEV sales is expected to be unexciting, as the operating environment has been challenging, due to supply chain disruption and pandemic lockdown. GWM is fine-tuning its NEV strategy, to focus on high-value NEV models with strong technology support from LEMON Hybrid, TANK and COFFEE Intelligence as well as hybrid and other electric vehicles. With 8 new models planned for 2022, we estimate NEV unit sales CAGR to be c.70% to 370k units from FY21-23F.

ICE-NEV development. FY21 gross margin slipped 1.1ppt to 16.2%, relatively mild given its high proportion of ICE vehicle sales, which is less affected by the sharp increase in EV battery raw material price. We believe GWM will take a balanced approach between ICE-NEV business development, given that the ICE business is a profitable and cash generative operation to support the rapid NEV expansion. A better product mix is positive to mitigate cost pressure. Therefore, we estimate gross margin to recover to 18% by FY23F, an increase of 1.8ppts from FY21.

Globalisation strategy facing short-term pressure. The geopolitical conflict has derailed its development pace in Russia, and expected to incur ballpark losses of Rmb500m this year. However, the company is still embarking on its overseas business expansion, particularly in the more predictable markets such as Thailand.

Valuation:

We cut FY22/23F net earnings by 8%/5% to factor in lower margin assumptions given the current high raw material cost environment. We have kept our target FY22F PE unchanged at 18x to arrive at a new TP of HK\$24.

Where we differ:

Our FY22/23F net earnings estimates are slightly above consensus as we believe the company is well positioned to roll out more competitive models to drive earnings recovery.

Key Risks to Our View:

Erosion in market share, rising competition, and margin compression due to raw material cost pressure.

At A Glance

Issued Capital - H shares (m shs)	3,100
- Non H shrs (m shs)	6,136
H shs as a % of Total	34
Total Mkt Cap (HK\$m/US\$m)	246,633 / 31,490
Major Shareholders (%)	
Baoding Innovation Great Wall Asset Mgt	83.4
Major H Shareholders (As % of H shares)	
Harvest Fund Management Co., Ltd.	5.7
Schroder Investment Management Ltd. (SIM)	5.3
H Shares-Free Float (%)	89.0
3m Avg. Daily Val. (US\$m)	74.00
GICS Industry: Consumer Discretionary / Automobiles & Components	



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Live more, Bank less

Great Wall Motor**WHAT'S NEW****Moving fast in NEV development**

Revamping NEV strategy to adapt to rapid market transformation. GWM posted robust NEV sales in FY21 (+134% y-o-y), demonstrating its ability to catch the industry sales trend (+160%). NEV sales ratio increased from 4% in FY19 to c.11% in FY21. However, NEV sales in Jan-Apr 22 is expected to be unexciting, as the operating environment has been challenging due to supply chain disruption (Russia-Ukraine conflict causing major volatility in the commodity market), auto chip shortage, and pandemic lockdown. As a result, GWM is fine-tuning its NEV strategy, focusing on high-value NEV models with strong technology support from LEMON Hybrid, TANK and COFFEE Intelligence, cutting across hybrid vehicles (DHT hybrid for both HEV and PHEV, powertrain, lemon platform) as well as electric vehicles (battery). New NEV models in 2022 include Haval (Cool Dog), WEY (Yuanmeng), ORA (Ballet Cat, Punk Cat, Lightning Cat), TANK 700, Pickup King Kong Poer and SALOON Mecha Dragon. We estimate NEV sales CAGR of c.70% to about 370k units from FY21-23F.

Product margin recovery is possible. FY21 gross margin slipped 1.1pppts to 16.2%, relatively mild compared to industry peers (some in excess of 5pppts reduction). We believe the smaller decline was due to its relatively high proportion of ICE vehicle sales, thus avoiding the severe impact from the battery raw material cost escalation. We believe GWM will take a balanced approach between ICE-NEV business development, given that the ICE business is a profitable and cash generative operation that is supporting the rapid NEV expansion.

However, a better product mix is positive to mitigate the cost pressure. Therefore, we estimate gross margin to recover to 18% by FY23F, an increase of 1.8pppts from FY21.

Globalisation strategy facing some headwinds. Export volume surged about 100% in FY21 to c.140k units. However, the Russia-Ukraine conflict has derailed its development in the Russian market and is expected to incur some losses this year, at around Rmb500m. However, the company is still embarking on its overseas business expansion, particularly in the more predictable markets such as Thailand.

Long-term outlook remains positive; but cut earnings estimates on higher cost assumptions. We cut FY22/23F net earnings by 8%/5% to factor in lower margin assumptions given the current high raw material cost environment. We kept our target FY22F PE unchanged at 18x to arrive at new TP of HK\$24. Maintain BUY with FY21-23F net earnings CAGR of about 40%.

Company Background

Great Wall Motor (GWM) is one of the largest Sport Utility Vehicle (SUV) producers in China, with a market share of 9% in 2019. GWM develops its vehicles (SUVs, sedans, pickup trucks and NEVs) under the Haval, WEY, Great Wall Pick-up, and ORA brands. Besides the domestic market, the company also exports overseas, which accounted for about 6.3% of total volume sales in 2020 and surged to 9.1% by 1Q21. The company has assembly operations in Russia, Ecuador, Malaysia, Thailand and Tunisia.

Great Wall Motor

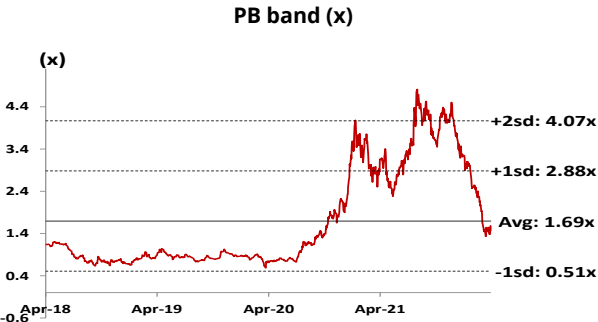
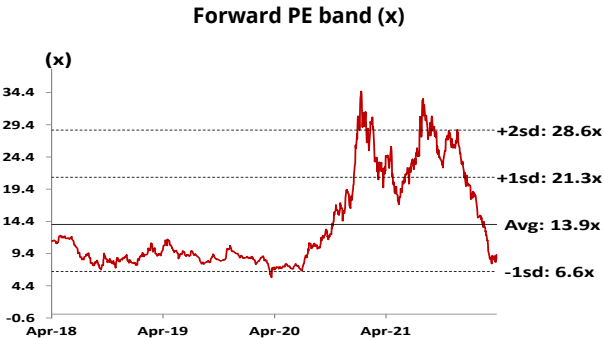
Great Wall Motor FY21 results performance

RMB m	1H20	2H20	1H21	2H21	2H21 vs 2H20 chg. %	1H21 vs 2H20 chg. %	FY20	FY21	Y-o-Y chg. %
Revenue	35,929	67,378	61,928	74,476	10.5%	20.3%	103,308	136,405	32.0%
Less: COGS	(30,642)	(54,889)	(51,864)	(62,503)	13.9%	20.5%	(85,531)	(114,367)	33.7%
Gross profit	5,288	12,489	10,064	11,973	-4.1%	19.0%	17,777	22,037	24.0%
Taxes & surcharges	(1,026)	(2,166)	(1,798)	(2,437)	12.5%	35.5%	(3,192)	(4,234)	32.7%
Other income & gains	338	1,252	595	2,012	60.7%	238.1%	1,590	2,607	64.0%
Selling & distribution cost	(1,077)	(3,026)	(2,444)	(2,748)	-9.2%	12.4%	(4,103)	(5,192)	26.5%
Admin expense	(2,161)	(391)	(3,199)	(844)	115.6%	-73.6%	(2,553)	(4,043)	58.4%
Operating profit	978	4,735	2,985	3,032	-36.0%	1.6%	5,712	6,017	5.3%
Finance income	(155)	(242)	306	142	-158.7%	-53.7%	(397)	448	-212.9%
Pre-tax profit	1,318	4,909	3,936	3,546	-27.8%	-9.9%	6,227	7,482	20.2%
Taxation	(172)	(693)	(407)	(350)	-49.5%	-14.0%	(865)	(757)	-12.5%
Minority interest	0	0	0	1			0	1	nm
Attri net profit	1,146	4,216	3,529	3,197	-24.2%	-9.4%	5,362	6,726	25.4%
EPS (RMB)	0.12	0.46	0.39	0.34	-26.9%	-13.3%	0.59	0.73	24.0%
DPS (RMB)							0.28	0.37	31.9%
Margins					ppt chg.	ppt chg.			
Gross	14.7%	18.5%	16.3%	16.1%	-2.5 ppts	-0.2 ppts	17.2%	16.2%	-1.1 ppts
Operating	2.7%	7.0%	4.8%	4.1%	-3.0 ppts	-0.7 ppts	5.5%	4.4%	-1.1 ppts
Pre-tax	3.7%	7.3%	6.4%	4.8%	-2.5 ppts	-1.6 ppts	6.0%	5.5%	-0.5 ppts
Net	3.2%	6.3%	5.7%	4.3%	-2.0 ppts	-1.4 ppts	5.2%	4.9%	-0.3 ppts
Revenue breakdown by business									
Sales of automobiles	31,972	60,413	55,210	66,097	9.4%	19.7%	92,386	121,307	31.3%
Sales of auto parts & others	1,655	3,486	3,107	3,765	8.0%	21.2%	5,141	6,872	33.7%
Others	2,302	3,479	3,611	4,614	32.6%	27.8%	5,781	8,225	42.3%
Total	35,929	67,378	61,928	74,476	10.5%	20.3%	103,308	136,405	32.0%
Sales volume breakdown ('000 units)									
Pick-up trucks	95.9	129.1	118.1	114.9	-11.0%	-2.6%	225.0	233.0	3.6%
SUV	288.9	539.9	428.8	413.8	-23.3%	-3.5%	828.7	842.7	1.7%
ORA brand	9.4	46.8	52.5	82.5	76.1%	57.0%	56.3	135.0	140.0%

Source: Company

Great Wall Motor

Historical PE and PB band



Source: Thomson Reuters, DBS HK

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Key Assumptions

FY Dec	2019A	2020A	2021A	2022F	2023F
Total vehicles sales ('000 units)	1,060.3	1,115.9	1,281.0	1,578.5	1,893.9
Pick-up trucks	148.8	228.7	237.1	256.0	281.6
SUV	869.5	829.0	822.6	970.7	1,116.3
NEV	38.9	58.2	136.7	246.1	369.1
TANK	3.1	58.2	136.7	246.1	369.1

Source: Company, DBS HK

Segmental Breakdown (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenues (RMB m)					
Sales of automobile vehicles	86,251	92,386	121,307	161,606	205,126
Sales of parts and components	4,293	5,141	6,872	8,934	10,274
Others	5,667	5,781	8,225	10,085	12,374
Total	96,211	103,308	136,405	180,624	227,774

Source: Company, DBS HK

Income Statement (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenue	96,211	103,308	136,405	180,624	227,774
Cost of Goods Sold	(79,684)	(85,531)	(114,367)	(149,762)	(186,692)
Gross Profit	16,526	17,777	22,037	30,862	41,082
Other Opng (Exp)/Inc	(12,080)	(12,064)	(16,020)	(21,524)	(27,604)
Operating Profit	4,446	5,712	6,017	9,338	13,478
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	304	912	1,017	1,118	1,230
Net Interest (Exp)/Inc	351	(397)	448	719	505
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	5,101	6,227	7,482	11,176	15,213
Tax	(570)	(865)	(757)	(1,118)	(1,521)
Minority Interest	(34)	0	1	0	0
Preference Dividend	0	0	0	0	0
Net Profit	4,497	5,362	6,726	10,058	13,691
Net Profit before Except.	4,497	5,362	6,726	10,058	13,691
EBITDA	9,374	11,502	12,627	15,745	20,896
Growth					
Revenue Gth (%)	(3.0)	7.4	32.0	32.4	26.1
EBITDA Gth (%)	(8.5)	22.7	9.8	24.7	32.7
Opg Profit Gth (%)	(30.0)	28.5	5.3	55.2	44.3
Net Profit Gth (%)	(13.6)	19.2	25.4	49.5	36.1
Margins & Ratio					
Gross Margins (%)	17.2	17.2	16.2	17.1	18.0
Opg Profit Margin (%)	4.6	5.5	4.4	5.2	5.9
Net Profit Margin (%)	4.7	5.2	4.9	5.6	6.0
ROAE (%)	8.4	9.6	11.3	15.4	18.7
ROA (%)	4.0	4.0	4.1	5.5	7.0
ROCE (%)	6.1	7.0	6.5	9.4	12.5
Div Payout Ratio (%)	50.7	48.0	50.8	50.8	50.0
Net Interest Cover (x)	NM	14.4	NM	NM	NM

Source: Company, DBS HK

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Interim Income Statement (RMB m)

FY Dec	2H2019	1H2020	2H2020	1H2021	2H2021
Revenue	54,834	35,929	67,378	61,928	74,476
Cost of Goods Sold	(44,554)	(30,642)	(54,889)	(51,864)	(62,503)
Gross Profit	10,280	5,288	12,489	10,064	11,973
Other Oper. (Exp)/Inc	(7,539)	(4,310)	(7,754)	(7,079)	(8,941)
Operating Profit	2,740	978	4,735	2,985	3,032
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	304	496	416	644	372
Net Interest (Exp)/Inc	152	(155)	(242)	306	142
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	3,196	1,318	4,909	3,936	3,546
Tax	(216)	(172)	(693)	(407)	(350)
Minority Interest	0	0	0	0	1
Net Profit	2,980	1,146	4,216	3,529	3,197
Net profit bef Except.	2,980	1,146	4,216	3,529	3,197
Growth					
Revenue Gth (%)	8.5	(13.2)	22.9	72.4	10.5
Opg Profit Gth (%)	69.6	(42.7)	72.8	205.4	(36.0)
Net Profit Gth (%)	97.1	(24.5)	41.5	207.9	(24.2)
Margins					
Gross Margins (%)	18.7	14.7	18.5	16.3	16.1
Opg Profit Margins (%)	5.0	2.7	7.0	4.8	4.1
Net Profit Margins (%)	5.4	3.2	6.3	5.7	4.3

Source: Company, DBS HK

Great Wall Motor

Balance Sheet (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Net Fixed Assets	29,743	28,609	27,441	33,541	44,778
Invt in Associates & JVs	3,113	8,415	9,524	10,643	11,873
Other LT Assets	11,738	17,588	30,077	33,688	31,262
Cash & ST Invt	9,723	14,588	33,048	29,230	23,566
Inventory	6,237	7,498	13,966	16,061	18,471
Debtors	3,193	3,936	5,422	6,073	6,801
Other Current Assets	49,348	73,377	55,930	59,573	63,714
Total Assets	113,096	154,011	175,408	188,808	200,465
ST Debt	1,180	7,901	5,204	7,204	5,204
Creditors	25,440	33,185	37,083	38,937	40,884
Other Current Liab	27,980	40,079	53,309	56,215	59,343
LT Debt	1,206	10,777	12,132	12,132	12,132
Other LT Liabilities	2,892	4,727	5,550	5,550	5,550
Shareholder's Equity	54,399	57,342	62,124	68,765	77,347
Minority Interests	0	0	4	4	4
Total Cap. & Liab.	113,096	154,011	175,408	188,808	200,465
Non-Cash Wkg. Capital	5,360	11,546	(15,074)	(13,445)	(11,241)
Net Cash/(Debt)	7,337	(4,090)	15,711	9,893	6,229
Debtors Turn (avg days)	12.4	12.6	12.5	11.6	10.3
Creditors Turn (avg days)	123.1	132.7	117.9	96.0	80.7
Inventory Turn (avg days)	26.0	31.1	36.0	37.9	34.9
Asset Turnover (x)	0.9	0.8	0.8	1.0	1.2
Current Ratio (x)	1.3	1.2	1.1	1.1	1.1
Quick Ratio (x)	0.2	0.2	0.4	0.3	0.3
Net Debt/Equity (X)	CASH	0.1	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	0.1	CASH	CASH	CASH
Capex to Debt (%)	284.4	43.2	75.5	77.6	86.5
Z-Score (X)	NA	NA	NA	NA	NA

Source: Company, DBS HK

Cash Flow Statement (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Pre-Tax Profit	5,101	6,227	7,482	11,176	15,213
Dep. & Amort.	4,624	4,878	5,594	5,289	6,189
Tax Paid	(1,229)	(570)	(865)	(757)	(1,118)
Assoc. & JV Inc/(loss)	0	(912)	(1,017)	(1,118)	(1,230)
(Pft)/ Loss on disposal of FAs	0	0	0	0	0
Chg in Wkg.Cap.	8,256	(2,818)	23,212	(1,989)	(2,608)
Other Operating CF	(2,779)	(1,625)	909	(619)	(405)
Net Operating CF	13,972	5,181	35,316	11,981	16,041
Capital Exp.(net)	(6,785)	(8,062)	(13,091)	(15,000)	(15,000)
Other Invt.(net)	0	0	0	0	0
Invt in Assoc. & JV	(8,482)	(5,175)	1,808	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	411	2,645	5,248	6,230	6,017
Net Investing CF	(14,856)	(10,591)	(6,035)	(8,770)	(8,983)
Div Paid	(2,830)	(2,282)	(5,338)	(3,418)	(5,110)
Chg in Gross Debt	6,686	14,817	(92)	2,000	(2,000)
Capital Issues	0	215	807	0	0
Other Financing CF	88	(1,383)	(5,009)	(471)	(472)
Net Financing CF	3,944	11,368	(9,632)	(1,889)	(7,582)
Currency Adjustments	48	(146)	(192)	0	0
Chg in Cash	3,109	5,811	19,456	1,322	(524)
Opg CFPS (RMB)	0.63	0.88	1.31	1.51	2.02
Free CFPS (RMB)	0.79	(0.32)	2.41	(0.33)	0.11

Source: Company, DBS HK

Great Wall Motor

H Share - Target Price & Ratings History

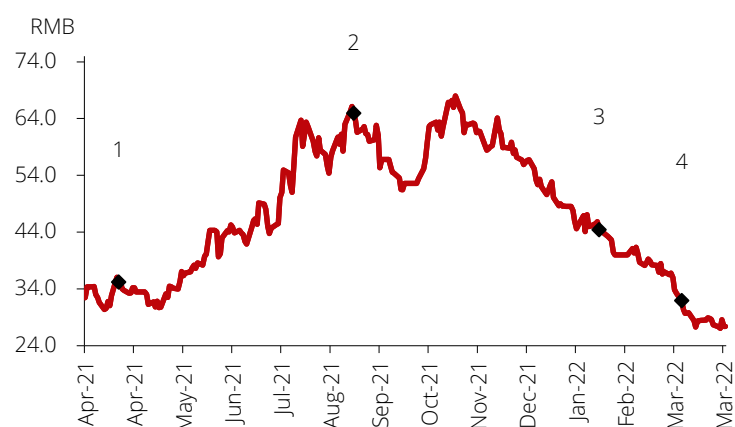


S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	20-Apr-21	HK\$25.50	HK\$31.30	Buy
2:	1-Sep-21	HK\$34.60	HK\$43.00	Buy
3:	19-Jan-22	HK\$25.35	HK\$38.00	Buy
4:	7-Mar-22	HK\$12.88	HK\$26.00	Buy

Source: DBS HK

Analyst: Rachel Miu

A Share - Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	20-Apr-21	RMB35.19	RMB38.60	Hold
2:	1-Sep-21	RMB64.92	RMB70.00	Hold
3:	19-Jan-22	RMB45.84	RMB49.00	Hold
4:	7-Mar-22	RMB31.92	RMB35.00	Hold

Source: DBS HK

Analyst: Rachel Miu

Great Wall Motor

DBS HK recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

Completed Date: 1 Apr 2022 16:41:32 (HKT)

Dissemination Date: 1 Apr 2022 17:19:05 (HKT)

Sources for all charts and tables are DBS HK unless otherwise specified.

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