

COMPANY RESULTS

Great Wall Motor (2333 HK)

1Q22: Net Profit Down 8% qoq, Missing Consensus Forecast

GWM's 1Q22 net profit came in below estimates at Rmb1,634m (-0.3% yoy/-8.3% qoq), due to higher-than-expected SG&A and R&D expenses. Looking ahead, we expect earnings to dip along with sales in 2Q22, as the COVID-19 containment measures disrupt supply chains. GWM will probably delay the launches of new models due to the lockdowns. We cut 2022 net profit forecast by 10%. Maintain BUY on the expected recovery from 3Q22 and cheap valuation. Cut target price to HK\$20.00.

1Q22 RESULTS

Year to 31 Dec (Rmbm)	1Q22	yoy % chg	qoq % chg	Comments
Revenue	33,619	8.0	(26.3)	Sales volume dropped 16% yoy and 28% qoq.
Gross profit	5,776	22.7	(17.2)	Gross margin hiked 2.1ppt yoy and 1.9ppt qoq to 17.2%.
EBIT	1,476	8.5	53.3	
Net profit	1,634	(0.3)	(8.3)	
Net profit (core)	1,303	(2.4)	101.4	Below our estimate but below consensus

Source: GWM

RESULTS

- 1Q22 net profit came in below expectations** at Rmb1,634m (-0.3% yoy/-8.3% qoq), vs our estimate of Rmb1.7b and consensus estimate of Rmb1.74b. This compared with our full-year 2022 net profit forecast of Rmb7,463m and consensus full-year 2022 net profit forecast of Rmb9,259m. The earnings miss came from higher-than-expected SG&A and R&D expenses, which offset the gross margin expansion.
- Gross margin boosted by higher ASP.** Great Wall Motor's (GWM) ASP spiked by 29.1% yoy and 2.4% qoq to Rmb118,600 in 1Q22, as the share of the pricier WEY- and Tank-branded SUVs (>Rmb180,000) in sales volume mix soared by 6.4ppt yoy and 1.2ppt qoq to 14.1% in 1Q22. As such, gross margin hiked by 2.1ppt yoy and 1.9ppt qoq to 17.2%.
- SG&A and R&D expenses above estimates.** SG&A expenses and R&D expenses as a percentage of revenue increased by 0.8ppt/1.0ppt yoy and 0.2ppt/0.3ppt qoq to 6.6% in 3.9% respectively in 1Q22, due to the additional expenses for new model launches.

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2020	2021	2022F	2023F	2024F
Net turnover	103,308	136,405	157,950	257,000	337,500
EBITDA	10,591	10,597	13,631	21,203	26,291
Operating profit	5,713	5,003	6,211	10,655	13,243
Net profit (rep./act.)	5,362	6,726	6,720	10,963	13,769
Net profit (adj.)	3,972	4,289	4,290	6,863	8,369
EPS (fen)	58.4	73.3	72.8	118.7	149.1
PE (x)	15.6	12.4	12.5	7.7	6.1
P/B (x)	1.5	1.4	1.2	1.1	1.0
EV/EBITDA (x)	8.4	8.4	6.5	4.2	3.4
Dividend yield (%)	3.1	4.1	2.6	4.1	5.0
Net margin (%)	5.2	4.9	4.3	4.3	4.1
Net debt/(cash) to equity (%)	8.7	(25.0)	(15.8)	(45.9)	(66.8)
Interest cover (x)	14.4	n.a.	n.a.	n.a.	n.a.
ROE (%)	9.6	11.3	10.3	15.1	16.8
Consensus net profit	-	-	9,259	12,616	15,452
UOBKH/Consensus (x)	-	-	0.73	0.87	0.89

Source: GWM, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	HK\$11.18
Target Price	HK\$20.00
Upside/(Downside)	78.9%
(Previous:	HK\$21.50)

COMPANY DESCRIPTION

Based in Baoding, in Hebei province, Great Wall Motor produces and sells pick-up trucks, SUVs and sedans under its proprietary brand Great Wall.

STOCK DATA

GICS sector	Automobile
Bloomberg ticker:	2333 HK
Shares issued (m):	3,100
Market cap (HK\$m):	34,653
Market cap (US\$m):	4,443
3-mth avg daily t'over (US\$m):	149.8

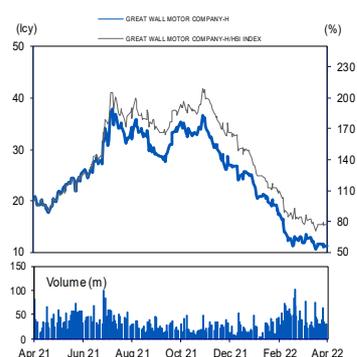
Price Performance (%)

52-week high/low	HK\$39.00/HK\$10.32			
1mth	3mth	6mth	1yr	YTD
(13.6)	(55.2)	(68.5)	(44.9)	(58.3)

Major Shareholders

Wei Jian Jun	56.04%
FY22 NTAV/Share (Rmb)	4.95
FY22 Net Cash/Share (Rmb)	1.44

PRICE CHART



Source: Bloomberg

ANALYST(S)

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STOCK IMPACT

- **Sales expected to drop in 2Q22 due to lockdowns.** GWM has more than 200,000 units of orders on hand, two times the monthly sales in March and thus in the next couple of months the company's sales will be more driven by supplies. We expect GWM's sales to drop by at least 19-20% yoy and qoq in 2Q22 due to the shortage in parts and components, eg Bosch's electronic stability control (ESC) units, against the backdrop of lockdowns in over 90 cities across China. Although the state is fine-tuning the lockdown policy by allowing some automobile companies to resume production in a closed loop system, we expect full recovery to come only after the lockdowns are lifted, as many automobile parts companies are still halting production, and people are getting trapped at home, reining in effective demand for vehicles. As such, GWM will probably delay the launches of new models from 2Q22 to 2H22. We cut 2022 sales volume estimate for GWM by 10% from 1.5m units to 1.35m units, based on the assumption that production will return to normalcy from Jul 22.
- **Strong product pipeline to sustain sales growth after the unlocking.** We keep 2023-24 sales volume estimates unchanged at 2m units and 2.5m units respectively, on the back of the strong product pipeline in the next 2-3 years. In 2022-25, GWM will roll out at least 10 new models every year, eg Tank 500, Tank 300 (HEV), the all-new plug-in hybrid electric vehicles (PHEV) built on the Lemon Platform, the WEY Coffee-series, Haval Dog series, etc. The ramp-up of the sales of these high-end new models will boost the blended ASP of GWM. We expect GWM's ASP to increase by 5-10% p.a. in 2022-24.
- **Production volume at overseas plants to ramp up over the next 2-3 years.** GWM's Thailand plant has started operation since 1Q22, and it is rolling out new electric vehicle (EV) models like Haval H6 hybrid electric vehicle (HEV), Haval H6 PHEV, Haval Jolion HEV, Ora Good Cat, Tank 300 HEV in the Southeast Asian market. GWM in Jan 22 completed the acquisition of the Mercedes-Benz plant in Sao Paulo, Brazil, and it plans to invest BRL10b (about Rmb11.5b) to revamp the plant. In the years to come, GWM will launch 10 intelligent EV models under three EV series, Tank, Haval and Poer in the Brazilian market. GWM's overseas sales grew 1.8% yoy to 29,322 units in 1Q22, representing 10% of total sales volume, and we expect overseas sales' share in total sales to increase to 15% in 2-3 years.

EARNINGS REVISION/RISK

- **We trim 2022 net profit by 10% to Rmb6.72b and keep those for 2023 and 2024 unchanged** at Rmb10.96b and Rmb13.77b, which are 27%, 13% and 11% below consensus estimates given our lower assumptions on margins. On a quarterly basis, we anticipate net profit to drop from Rmb1.6b in 1Q22 to Rmb900m in 2Q22 and rebound to Rmb1.9b/Rmb2.2b in 3Q22/4Q22.
- **Risks.** Downside to our earnings estimates lies in the COVID-19 pandemic and China's zero-COVID policy. If China's draconian COVID-19-containment measures last longer than expected, that would hammer China's automobile sales harder.

VALUATION/RECOMMENDATION

- **Maintain BUY and cut target price from HK\$21.50 to HK\$20.00**, based on our 10-year DCF (WACC: 9%/10-year FCF growth: 10%/terminal growth: 4%). Under our assumed bear-case scenario (WACC: 9%/10-year FCF growth: 5%/terminal growth: 4%), we estimate the fair value of GWM at HK\$14.50, 25% above current stock price.

PROFIT & LOSS

Year to 31 Dec (Rmbm)	2021	2022F	2023F	2024F
Net turnover	136,405	157,950	257,000	337,500
EBITDA	10,597	13,631	21,203	26,291
Depreciation & amortization	(5,594)	(7,420)	(10,547)	(13,048)
EBIT	5,003	6,211	10,655	13,243
Total other non-operating income	1,014	-	-	-
Associate contributions	1,017	1,300	1,550	1,550
Net interest income/(expense)	448	395	692	1,405
Pre-tax profit	7,482	7,906	12,897	16,198
Tax	(757)	(1,186)	(1,935)	(2,430)
Minorities	1	-	-	-
Net profit	6,726	6,720	10,963	13,769
Net profit (recurrent)	4,289	4,290	6,863	8,369

CASH FLOW

Year to 31 Dec (Rmbm)	2021	2022F	2023F	2024F
Operating	35,316	18,534	48,999	48,025
Pre-tax profit	7,482	7,906	12,897	16,198
Tax	443	(1,186)	(1,935)	(2,430)
Depreciation/amortisation	5,594	7,420	10,547	13,048
Associates	(1,017)	(1,300)	(1,550)	(1,550)
Working capital changes	23,212	6,089	29,731	24,163
Non-cash items	-	-	-	-
Other operating cashflows	(399)	(395)	(692)	(1,405)
Investing	(11,175)	(22,079)	(21,782)	(21,069)
Capex (growth)	(13,091)	(23,000)	(23,000)	(23,000)
Investments	(36,147)	-	-	-
Proceeds from sale of assets	618	-	-	-
Others	37,445	921	1,218	1,931
Financing	(9,632)	(1,172)	(2,671)	(3,957)
Dividend payments	-	(647)	(2,145)	(3,431)
Issue of shares	807	-	-	-
Proceeds from borrowings	9,215	10,000	10,000	10,000
Loan repayment	(11,873)	(10,000)	(10,000)	(10,000)
Others/interest paid	(7,781)	(526)	(526)	(526)
Net cash inflow (outflow)	14,509	(4,718)	24,546	22,999
Beginning cash & cash equivalent	13,591	27,908	23,190	47,736
Change due to forex impact	(192)	-	-	-
Ending cash & cash equivalent	27,908	23,190	47,736	70,735

BALANCE SHEET

Year to 31 Dec (Rmbm)	2021	2022F	2023F	2024F
Fixed assets	27,441	26,387	25,471	24,674
Other LT assets	39,601	57,535	72,455	84,754
Cash/ST investment	27,908	23,190	47,736	70,735
Other current assets	80,458	84,631	101,401	115,031
Total assets	175,408	191,743	247,063	295,194
ST debt	8,872	8,872	8,872	8,872
Other current liabilities	86,725	96,987	143,488	181,282
LT debt	8,656	8,656	8,656	8,656
Other LT liabilities	9,026	9,026	9,026	9,026
Shareholders' equity	62,124	68,198	77,016	87,353
Minority interest	4	4	4	4
Total liabilities & equity	175,408	191,743	247,063	295,194

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	7.8	8.6	8.3	7.8
Pre-tax margin	5.5	5.0	5.0	4.8
Net margin	4.9	4.3	4.3	4.1
ROA	4.1	3.7	5.0	5.1
ROE	11.3	10.3	15.1	16.8
Growth				
Turnover	32.0	15.8	62.7	31.3
EBITDA	0.1	28.6	55.6	24.0
Pre-tax profit	20.2	5.7	63.1	25.6
Net profit	25.4	(0.1)	63.1	25.6
Net profit (adj.)	8.0	0.0	60.0	21.9
EPS	25.4	(0.7)	63.1	25.6
Leverage				
Debt to total capital	10.0	9.1	7.1	5.9
Debt to equity	28.2	25.7	22.8	20.1
Net debt/(cash) to equity	(25.0)	(15.8)	(45.9)	(66.8)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.

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