

GWM (2333.HK)

Despite Great Challenges in the Future, Falling Stock Price Has Excessively Shown a Bear Market

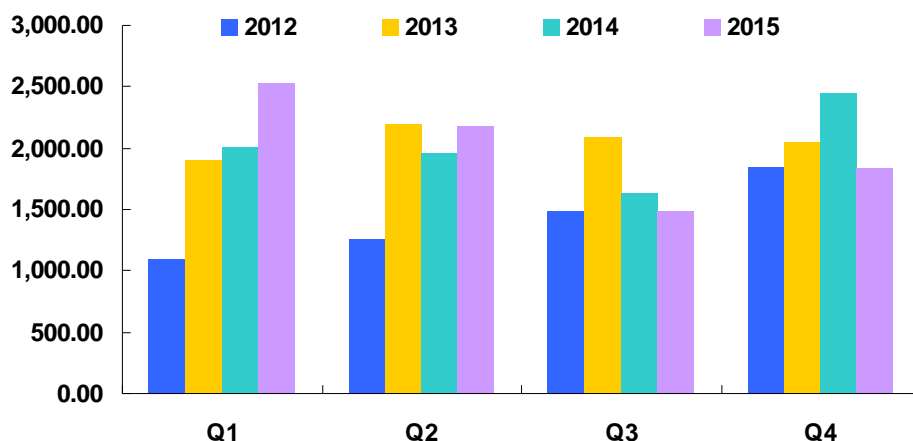
Hong Kong | Automobile | Update Report

19 February 2016

Continued to Earn Less in the Fourth Quarter and Unchanged Full-year Performance

The company announced the 2015 Annual Earnings Forecast: in accordance with China Accounting Standards for Business Enterprises, its annual total operating revenues stood at RMB76.033 billion, a YoY increase of 21.46% but about 1.6% lower than our estimate. Net profit decreased by 0.02% to RMB8.04 billion over the previous year, and the basic EPS was RMB0.8808, around 5.8% less than our estimate. Single-quarter net profit grew by 26%, 12%, -0.9% and -25% respectively over the same period last year. Besides, the performance was also lower than the market consensus forecast, leading to the under-performance of the company's stock price. We believe that what worries the market is not only the company's lower-than-expectation performance, but an increasing number of price wars the SUV market may face in the future.

GWM's Quarterly results



Source: Company, Phillip Securities Hong Kong Research

Leading Annual Sales Growth, but Considerable Provision Expenses in the Fourth Quarter Impaired Profitability

Undoubtedly, the performance of Great Wall Motor is incredibly exceptional from the perspective of sales data only. The sales of Great Wall Motor in 2015 saw a YoY growth of 16.7% to 853,000 units, so the established objectives were fulfilled. Also, its growth was far higher than 5% of the whole industry and ranked eighth in the domestic car market. Two of the company's SUVs were listed in the top ten SUVs in China. Haval H6 took the first place, 120,000 units more than the sales of Volkswagen Tiguan, the second place. Haval H2 came eighth.

BUY (Upgrade)

CMP: HKD 5.67
(Closing price as at 17 Feb 2016)
TARGET: HKD 8.16 (+44%)

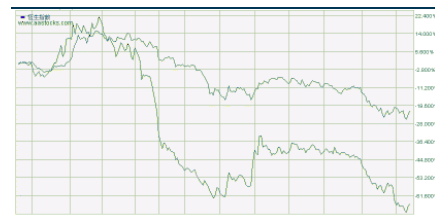
COMPANY DATA

O/S SHARES (MN) :	9129
MARKET CAP (HKD MN) :	17574
52 - WK HI/LO (HKD):	20.133/ 4.94

SHARE HOLDING PATTERN, %

Baoding Innovation Great Wall Asset Management	56.04
JPMorgan Chase & Co.	13.96

PRICE VS. HSI



Source: Phillip Securities (HK) Research

KEY FINANCIALS

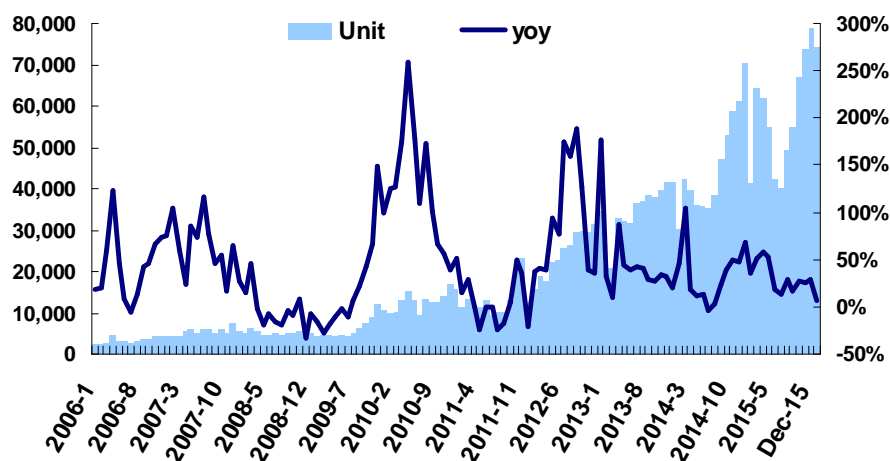
CNY mn	FY13	FY14	FY15E	FY16E
Net Sales	56,784	62,599	77,305	90,124
Net Profit	8,224	8,041	8,040	8,947
EPS, CNY	2.70	2.64	0.88	0.98
P/E, x	2.8	2.9	5.5	4.9
BVPS, CNY	9.25	10.99	4.06	4.53
P/BV, x	0.8	0.7	1.2	1.1
DPS (CNY)	0.82	0.80	0.26	0.29
Div. Yield (%)	10.7%	10.4%	5.4%	6.0%

Source: Company reports, Phillip Securities Est.

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The fact that the revenue growth was higher than the sales growth mirrors the increase in the company's single-vehicle sales price and continued optimization of sales structure. But the bottom line of its financial statement reflects its declined profitability: the single-vehicle profit plunged from RMB8,700 in the third quarter to RMB6,700 in the fourth quarter, and the single-vehicle profit in the fourth quarter of 2014 was RMB11,000. The primary reason is that the company withdrew huge amounts of expenses including year-end bonuses for employees, research and development costs and depreciation of newly-built capacity.

GWM's SUV monthly sales



Source: Company, Phillip Securities Hong Kong Research

Investment Thesis

Despite Great Challenges in the Future, Falling Stock Price Has Excessively Shown a Bear Market

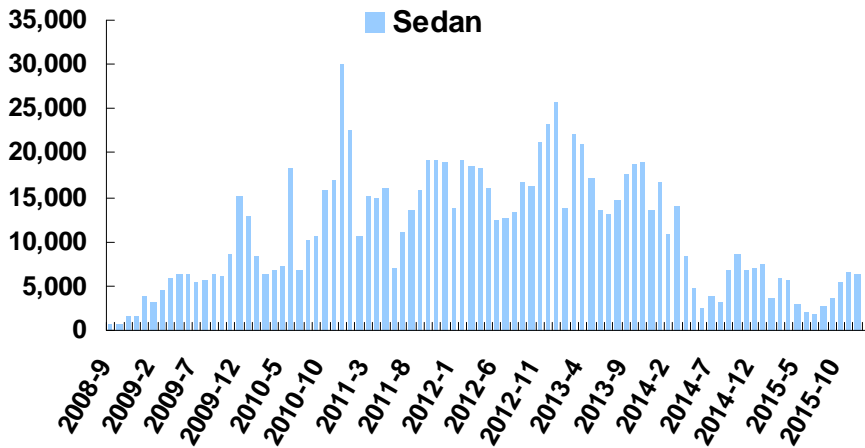
The company's sales target in 2016 is set to be 950,000 vehicles, up 12% over 2015, which is mainly driven by Haval H7 listed in the first half of this year, facelift H2&H6, and two-wheel-drive Haval H8 launched late last year. Presently, we believe the company desperately needs one to two splashy and excellent vehicle models to bolster market confidence and suggest paying close attention to market feedback after the launch of Haval H7.

The competitive pressure of the future SUV market keeps increasing and it is highly likely that the profitability of relevant sub-sectors remains poor. However, we believe that among the peer companies, the products of Great Wall Motor are most competitive in numerous medium and small-sized towns in China. The previous significant decline in stock price has excessively reflected a bear market. Even from a conservative estimate, the corresponding P/E ratio in 2016 of the current stock price is around 5x. Therefore, we lower the target price to HK\$8.16 with 7x P/E ratio in 2016. Also, the rating is upgraded to "Buy". (Closing price as at 17 Feb 2016)

Risk

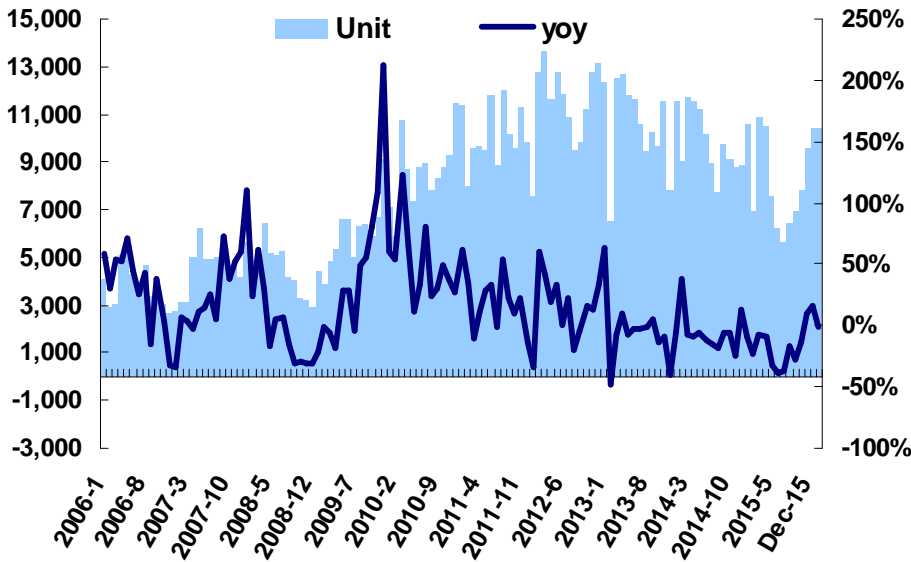
- New vehicle sales fall short of expectations
- The SUV market dramatically worsens
- The progress of new energy vehicle project is poorer than expectations

GWM's Sedan monthly sales



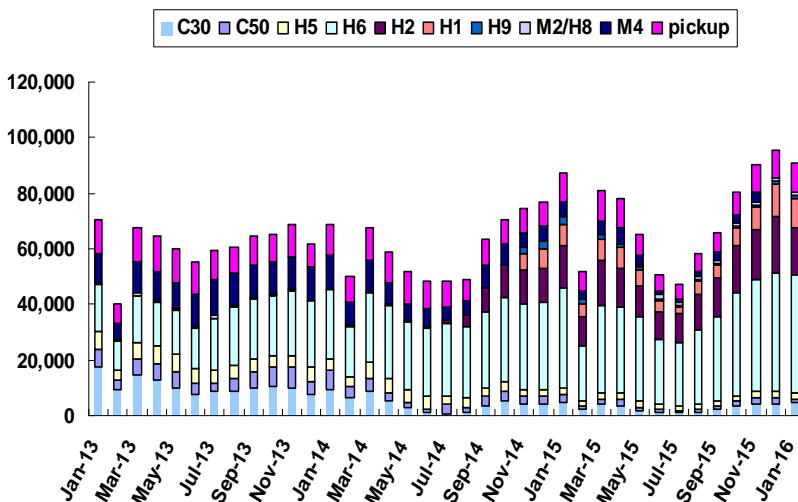
Source: Company, Phillip Securities Hong Kong Research

GWM's Pickup monthly sales



Source: Company, Phillip Securities Hong Kong Research

GWM's monthly sales



Source: Company, Phillip Securities Hong Kong Research

Financials

FYE DEC	FY11	FY12	FY13	FY14	FY15F	FY16F
Valuation Ratios						
P/E (X), adj.	11.8	7.4	5.0	5.2	5.5	4.9
P/B (X)	2.4	2.0	1.5	1.2	1.2	1.1
Dividend Yield (%)	2.1%	4.1%	6.0%	5.9%	5.4%	6.0%
Dividend payout ratio (%)	25.0%	30.5%	30.3%	30.3%	29.5%	29.6%
Per share data (RMB)						
EPS, reported	0.40	0.62	0.90	0.88	0.88	0.98
EPS, adj.	1.22	0.62	0.90	0.88	0.88	0.98
DPS	0.10	0.19	0.27	0.27	0.26	0.29
BVPS	1.98	2.36	3.07	3.66	4.06	4.53
Growth & Margins (%)						
Growth						
Revenue	30.9%	43.4%	31.6%	10.2%	23.5%	16.6%
EBIT	8.5%	62.2%	46.0%	-3.3%	5.6%	11.3%
Net Income, adj.	26.8%	66.2%	44.5%	-2.2%	0.0%	11.3%
Margins						
Gross margin	24.9%	26.9%	28.6%	27.7%	25.6%	25.3%
EBIT margin	13.8%	15.6%	17.3%	15.2%	13.0%	12.4%
Net Profit Margin	11.4%	13.2%	14.5%	12.8%	10.4%	9.9%
Key Ratios						
ROE (%)	25.6%	29.8%	33.22%	26.17%	22.80%	22.81%
ROA (%)	12.1%	15.0%	17.28%	14.11%	12.05%	11.90%
Income Statement (RMB mn)						
Revenue	30,089	43,160	56,784	62,599	77,305	90,124
Gross profit	7,496	11,598	16,246	17,347	19,790	22,792
Operating profit	4,126	6,716	9,777	9,479	9,990	11,097
EBIT	4,153	6,736	9,836	9,511	10,047	11,178
Profit before tax	4,130	6,841	9,920	9,640	9,686	10,778
Tax	(620)	(1,119)	(1,688)	(1,599)	(1,647)	(1,832)
Profit for the period	3,511	5,722	8,232	8,041	8,039	8,946
Minority interests	(84)	(30)	(8)	(0)	1	1
Total capital share	3,042	3,042	3,042	3,042	9,129	9,129
Net profit	3,426	5,692	8,224	8,041	8,040	8,947

Source: PSR

(Financial figures as at 17 February 2016)

PHILLIP RESEARCH STOCK SELECTION SYSTEMS

Total Return	Recommendation	Rating	Remarks
>+20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20% upside from the current price
-5% to +5%	Neutral	3	Trade within \pm 5% from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20% downside from the current price

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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