

GWM (2333.HK)

Preliminary results & Jan sales Review

Hong Kong | Automobile | Update Report

15 February 2017

An Estimated 30% Increase in Net Profit

Great Wall Motor (GWM) has released its preliminary results for 2016, reporting a net profit attributable to parent company at RMB 10.547 billion, representing a year on year increase by nearly 31%, equivalent to a basic EPS of RMB 1.16, which outperform our expectations. Total revenue for the period was recorded at RMB 98.616 billion, up by 29.7%. Such a positive profit alert is mainly due to the increase in vehicle sales, as well as the sales structure optimization caused by a higher sales volume of SUV that sells at higher price.

GWM Outperformed 2016 Sales Targets

In 2016, GWM sold 1.0745 million vehicles, representing a yoy growth of 26%, exceeding the target of 950,000 vehicles. The fact that revenue growth was higher than that of sales continued to illustrate the price increase of a single vehicle sold by GWM, with the average single vehicle price rose from RMB 89,167 to RMB 91,778 over the same period, an annual growth of 3%. The new SUV models, Haval H7 and Haval H6 coupe received positive market feedback, resulting in a steady growth of orders, which effectively makes up for the negative impact from the several price drops of H6. Moreover, after the H6 price reductions, the product stimulated a strong growth in demand and maintained the company's profitability at a high level.

By models, GWM shipped approximately 200,000 H2 vehicles. The H6 sales volume was nearly 600,000. H1, H7, H5 and H9 achieved about 70,000, 50,000, 20,000 and 10,000 vehicles of sales volume, respectively. GWM shipped 30,000 sedans and 100,000 pickup trucks. The company's sales target for 2017 was set at 1.25 million vehicles, an increase of 16% yoy.

Y-o-Y Sales in January Were Barely Equal

According to the latest data of GWM's vehicle sales, non-major models faced downward pressure since the sales of H1 and H5 slumped by 90% and 54%, respectively. Meanwhile, the major models maintained strong momentum, with the H6 sales increased by 9% yoy to 45,993 vehicles, H2 sales soared by 44% yoy to 24,917 vehicles, and the H7 recorded a 7,005 sales volume. Influenced by the drained demand at the end of 2016, the total sales in January was recorded at 91,233 in a tie with that in the same period in the previous year.

In 2017, GWM will release two new models under its new high-end brand system called WEY, probably at the Shanghai International Automobile Industry Exhibition and in Q3, respectively. The price interval will be RMB 150,000 to RMB 200,000. The updated and new models for the existing brands system will also be launched with its encryption strategy is carried out steadily.

Investment Thesis

GWM maintains strong momentum in the domestic SUV market with a continuously encrypted and expanding layout of models facilitating the company to enjoy more SUV bonus in the domestic market. However, as various competitive products are expected to usher, GWM would start to face fierce competition and challenges in H2 2017, which we suggest to pay close attention to. In terms of valuation, taking into account the offset of the outperforming annual result and the underperforming sales in January, we slightly lift the target price to HKD 9.67, equivalent to 7.4/6.5x P/E ratio in 2016/2017. The rating will be maintained to Accumulate. (Closing price as at 13 Feb 2017)

Accumulate (Maintain)

CMP: HKD 8.87

(Closing price as at 13 Feb 2017)

TARGET: HKD 9.67 (+9%)

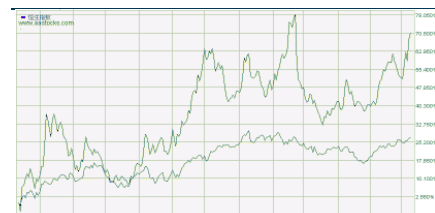
COMPANY DATA

O/S SHARES (MN) :	9129
MARKET CAP (HKD MN) :	27493
52 - WK HI/LO (HKD):	9.24 / 5.06

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	FY14	FY15	FY16E	FY17E
Net Sales	62,599	76,033	98,616	117,983
Net Profit	8,041	8,061	10,547	12,395
EPS, CNY	0.88	0.88	1.16	1.36
P/E, x	7.9	8.4	6.8	5.9
BVPS, CNY	3.66	4.20	5.18	6.01
P/BV, x	1.9	1.8	1.5	1.3
DPS (CNY)	0.27	0.26	0.32	0.39
Div. Yield (%)	3.8%	3.5%	4.1%	4.8%

Source: Company reports, Phillip Securities Est.

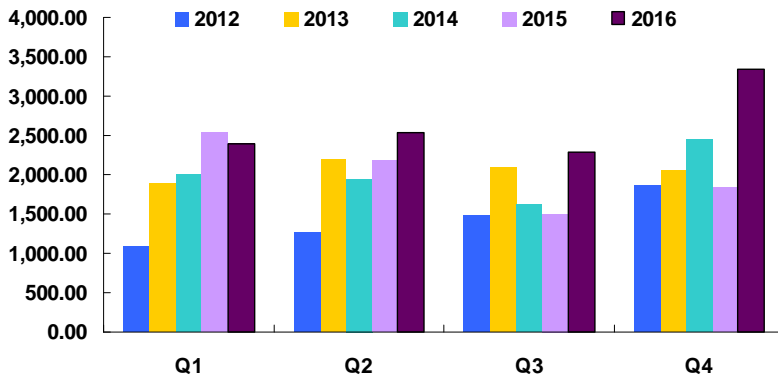
Research Analyst

ZhangJing

(+ 86 51699400-103)

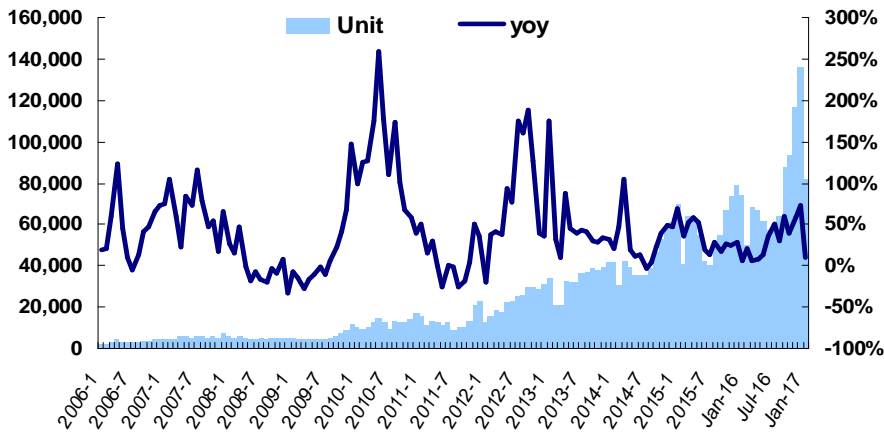
zhangjing@phillip.com.cn

GWM's Quarterly results



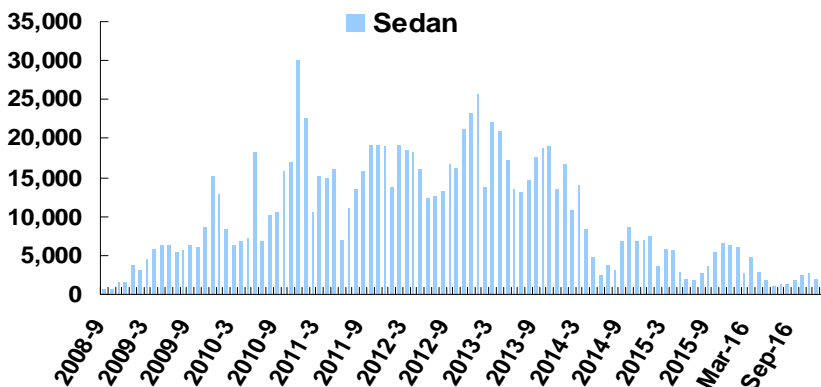
Source: Company, Phillip Securities Hong Kong Research

GWM's SUV monthly sales



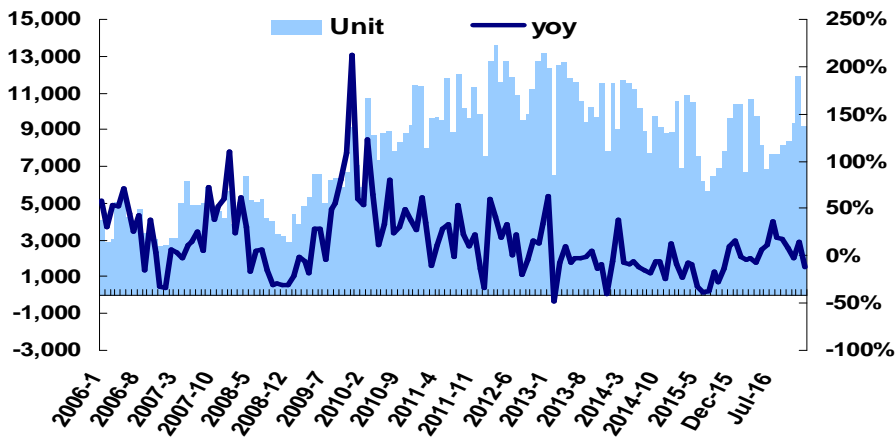
Source: Company, Phillip Securities Hong Kong Research

GWM's Sedan monthly sales



Source: Company, Phillip Securities Hong Kong Research

GWM's Pickup monthly sales



Source: Company, Phillip Securities Hong Kong Research

Risk

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

Peer Comparison

Ticker	Name	Market cap bil	P/E (2017)	P/B	ROE %
175 HK	GEELY	795	12	4	20.25
2333 HK	GREAT WALL	977	7	2	22.77
489 HK	DONGFENG	667	5	na	13.27
2238 HK	GAC	1270	8	2	18.23
1114 HK	BRILLIANCE	544	12	2	16.83

Source: Wind, Phillip Securities Hong Kong Research

Financials

FYE DEC	FY11	FY12	FY13	FY14	FY15	FY16F	FY17F
Valuation Ratios							
P/E (X), adj.	18.2	11.4	7.7	7.9	8.4	6.8	5.9
P/B (X)	3.7	3.0	2.3	1.9	1.8	1.5	1.3
Dividend Yield (%)	1.4%	2.7%	3.9%	3.8%	3.5%	4.1%	4.8%
Dividend payout ratio (%)	25.0%	30.5%	30.3%	30.3%	29.4%	27.7%	28.7%
Per share data (RMB)							
EPS, reported	0.40	0.62	0.90	0.88	0.88	1.16	1.36
EPS, adj.	1.22	0.62	0.90	0.88	0.88	1.16	1.36
DPS	0.10	0.19	0.27	0.27	0.26	0.32	0.39
BV/PS	1.98	2.36	3.07	3.66	4.20	5.18	6.01
Growth & Margins (%)							
Growth							
Revenue	30.9%	43.4%	31.6%	10.2%	21.5%	29.7%	19.6%
EBIT	8.5%	62.2%	46.0%	-3.3%	3.4%	28.7%	19.3%
Net Income, adj.	26.8%	66.2%	44.5%	-2.2%	0.3%	30.8%	17.5%
Margins							
Gross margin	24.9%	26.9%	28.6%	27.7%	25.2%	25.3%	25.3%
EBIT margin	13.8%	15.6%	17.3%	15.2%	12.9%	12.8%	12.8%
Net Profit Margin	11.4%	13.2%	14.5%	12.8%	10.6%	10.7%	10.5%
Key Ratios							
ROE (%)	25.6%	29.8%	33.22%	26.17%	22.46%	22.94%	21.05%
ROA (%)	12.1%	15.0%	17.28%	14.11%	12.10%	12.38%	11.62%
Income Statement (RMB mn)							
Revenue	30,089	43,160	56,784	62,599	76,033	98,616	117,983
Gross profit	7,496	11,598	16,246	17,347	19,169	24,930	29,838
Operating profit	4,126	6,716	9,777	9,479	9,737	12,558	14,967
EBIT	4,153	6,736	9,836	9,511	9,835	12,659	15,097
Profit before tax	4,130	6,841	9,920	9,640	9,688	12,483	14,899
Tax	(620)	(1,119)	(1,688)	(1,599)	(1,628)	(1,935)	(2,503)
Profit for the period	3,511	5,722	8,232	8,041	8,060	10,548	12,396
Minority interests	(84)	(30)	(8)	(0)	1	(1)	(1)
Total capital share	3,042	3,042	3,042	3,042	9,129	9,127	9,127
Net profit	3,426	5,692	8,224	8,041	8,061	10,547	12,395

Source: PSR

(Financial figures as at 13 February 2017)

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

GENERAL DISCLAIMER

This publication is prepared by Phillip Securities (Hong Kong) Ltd ("Phillip Securities"). By receiving or reading this publication, you agree to be bound by the terms and limitations set out below.

This publication shall not be reproduced in whole or in part, distributed or published by you for any purpose. Phillip Securities shall not be liable for any direct or consequential loss arising from any use of material contained in this publication.

The information contained in this publication has been obtained from public sources which Phillip Securities has no reason to believe are unreliable and any analysis, forecasts, projections, expectations and opinions (collectively the "Research") contained in this publication are based on such information and are expressions of belief only. Phillip Securities has not verified this information and no representation or warranty, express or implied, is made that such information or Research is accurate, complete or verified or should be relied upon as such. Any such information or Research contained in this publication is subject to change, and Phillip Securities shall not have any responsibility to maintain the information or Research made available or to supply any corrections, updates or releases in connection therewith. In no event will Phillip Securities be liable for any special, indirect, incidental or consequential damages which may be incurred from the use of the information or Research made available, even if it has been advised of the possibility of such damages.

Any opinions, forecasts, assumptions, estimates, valuations and prices contained in this material are as of the date indicated and are subject to change at any time without prior notice.

This material is intended for general circulation only and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. The products mentioned in this material may not be suitable for all investors and a person receiving or reading this material should seek advice from a financial adviser regarding the suitability of such products, taking into account the specific investment objectives, financial situation or particular needs of that person, before making a commitment to invest in any of such products.

This publication should not be relied upon as authoritative without further being subject to the recipient's own independent verification and exercise of judgment. The fact that this publication has been made available constitutes neither a recommendation to enter into a particular transaction nor a representation that any product described in this material is suitable or appropriate for the recipient. Recipients should be aware that many of the products which may be described in this publication involve significant risks and may not be suitable for all investors, and that any decision to enter into transactions involving such products should not be made unless all such risks are understood and an independent determination has been made that such transactions would be appropriate. Any discussion of the risks contained herein with respect to any product should not be considered to be a disclosure of all risks or a complete discussion of such risks.

Nothing in this report shall be construed to be an offer or solicitation for the purchase or sale of a security. Any decision to purchase securities mentioned in this research should take into account existing public information, including any registered prospectus in respect of such security.

Disclosure of Interest

Analyst Disclosure: Neither the analyst(s) preparing this report nor his associate has any financial interest in or serves as an officer of the listed corporation covered in this report.

Firm's Disclosure: Phillip Securities does not have any investment banking relationship with the listed corporation covered in this report nor any financial interest of 1% or more of the market capitalization in the listed corporation. In addition, no executive staff of Phillip Securities serves as an officer of the listed corporation.

Availability

The information, tools and material presented herein are not directed, intended for distribution to or use by, any person or entity in any jurisdiction or country where such distribution, publication, availability or use would be contrary to the applicable law or regulation or which would subject Phillip Securities to any registration or licensing or other requirement, or penalty for contravention of such requirements within such jurisdiction.

Information contained herein is based on sources that Phillip Securities (Hong Kong) Limited ("PSHK") believed to be accurate. PSHK does not bear responsibility for any loss occasioned by reliance placed upon the contents hereof. PSHK (or its affiliates or employees) may have positions in relevant investment products. For details of different product's risks, please visit the Risk Disclosures Statement on <http://www.phillip.com.hk>.

© 2017 Phillip Securities (Hong Kong) Limited

Contact Information (Regional Member Companies)
SINGAPORE
Phillip Securities Pte Ltd

250 North Bridge Road, #06-00 Raffles City Tower,
Singapore 179101

Tel : (65) 6533 6001 Fax: (65) 6535 3834

www.phillip.com.sg

INDONESIA
PT Phillip Securities Indonesia

ANZ Tower Level 23B, Jl Jend Sudirman Kav 33A,
Jakarta 10220, Indonesia

Tel (62) 21 5790 0800 Fax: (62) 21 5790 0809

www.phillip.co.id

THAILAND
Phillip Securities (Thailand) Public Co. Ltd.

15th Floor, Vorawat Building, 849 Silom Road,
Silom, Bangrak, Bangkok 10500 Thailand

Tel (66) 2 2268 0999 Fax: (66) 2 2268 0921

www.phillip.co.th

UNITED STATES
Phillip Futures Inc.

141 W Jackson Blvd Ste 3050

The Chicago Board of Trade Building
Chicago, IL 60604 USA

Tel (1) 312 356 9000 Fax: (1) 312 356 9005

MALAYSIA
Phillip Capital Management Sdn Bhd

B-3-6 Block B Level 3, Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450 Kuala Lumpur

Tel (60) 3 2162 8841 Fax (60) 3 2166 5099

www.poems.com.my

CHINA
Phillip Financial Advisory (Shanghai) Co. Ltd.

No 436 Heng Feng Road, Green Tech Tower Unit 604
Shanghai 200 070

Tel (86) 21 5169 9400 Fax: (86) 21 6091 1155

www.phillip.com.cn

FRANCE
King & Shaxson Capital Ltd.

3rd Floor, 35 Rue de la Bienfaisance
75008 Paris France

Tel (33) 1 4563 3100 Fax : (33) 1 4563 6017

www.kingandshaxson.com

AUSTRALIA
PhillipCapital Australia

Level 12, 15 William Street,

Melbourne, Victoria 3000, Australia

Tel: (61) 3 9618 8238 Fax: (61) 3 9200 2277

www.phillipcapital.com.au

HONG KONG
Phillip Securities (HK) Ltd

11/F United Centre 95 Queensway Hong Kong

Tel (852) 2277 6600 Fax: (852) 2868 5307

www.phillip.com.hk

JAPAN
Phillip Securities Japan, Ltd

4-2 Nihonbashi Kabutocho, Chuo-ku
Tokyo 103-0026

Tel: (81) 3 3666 2101 Fax: (81) 3 3664 0141

www.phillip.co.jp

INDIA
PhillipCapital (India) Private Limited

No. 1, 18th Floor, Urmi Estate, 95 Ganpatrao Kadam Marg,
Lower Parel West, Mumbai 400013

Tel: (9122) 2300 2999 Fax: (9122) 6667 9955

www.phillipcapital.in

UNITED KINGDOM
King & Shaxson Ltd.

6th Floor, Candlewick House, 120 Cannon Street
London, EC4N 6AS

Tel (44) 20 7929 5300 Fax: (44) 20 7283 6835

www.kingandshaxson.com

SRI LANKA
Asha Phillip Securities Limited

Level 4, Millennium House, 46/58 Navam Mawatha,
Colombo 2, Sri Lanka

Tel: (94) 11 2429 100 Fax: (94) 11 2429 199

www.ashaphillip.net/home.htm