

# GWM (2333.HK)

## Initial Success of Cost Reduction & Benefit Growth

Hong Kong | Automobile | Update Report

4 May 2018

### Investment Thesis

**Result of Q1 in 2018 Rebounded Slightly**  
**Initial Success of Cost Reduction & Benefit Growth**  
**Improving Sales Structure and Export Performance**  
**Implementation of Strategy for New Energy Development is Underway**

#### Result of Q1 in 2018 Rebounded Slightly

In 2017, Great Wall Motor recorded RMB101.17 billion in revenue, up 2.6% yoy, and a slash of 52.35% in net profit attributable to parent company, at RMB5.03 billion, as well as RMB0.55 of EPS. This slump of the result is mainly caused by heavy promotion of the old products in the first half year, below-scaled sales of new products (which led to the reduced gross profit, down 6 pts), and the above-expectation advertising effect of new arrivals.

According to the result report of Great Wall Motor in Q1 2018 (China Accounting Standards), the revenue grew by 14.0% yoy to RMB26.57 billion; the net profit attributable to parent company increased by 6.5% yoy to RMB2.08 billion; and the EPS stood at RMB0.23. Compared with EPS of the last year, which stood at RMB0.21, the result exceeded market expectancy slightly.

#### Initial Success of Cost Reduction & Benefit Growth

The profitability of the company in Q1 has stopped declining, and has continued to increase: the net profit margin reached 7.96%, down 0.5 pts yoy and up 2.2 pts qoq; the gross margin hit 20.44%, down 1.3 pts yoy and up 1.4 pts qoq. Reasons for this are as follows:

1) Excellent sales performance of the new brand, WEY, and decreased costs of the components have relieved pressure of the gross margin. Although the Q1 gross margin, at 20.44%, plunged by 1.3 pts, it has increased greatly, from 15%-16% in the middle of the previous year, by 1.4 pts, when compared with that of Q4 in the previous year.

2) Capitalization of the R&D costs cut the administration expenses by 51% to RMB0.625 billion; advanced CAFC negative points offset the sales expenses, making it grow by 49% to RMB1.17 billion yoy; and interest expenses lifted the financial expenses to RMB0.15 billion, representing 169% growth. The three expenses in total dropped by RMB0.16 billion, slashing the expense rate by approximately 1.4 pts.

#### Improving Sales Structure and Export Performance

In Q1, Great Wall Motor reported sales of 2,567 thousand vehicles, up 0.97% yoy, suggesting the upgrading sales structure. Among them, sales of HAVAL dropped by 18.56% to 180 thousand; sales of WEY, the high-end brand, reached 430 thousand; and the monthly sales of VV5 and VV7 arrived at approximately 7 thousand, respectively. New fuel vehicles of 2018 include two types that entered the market in March, namely, H4 (HAVEL series) and VV6 (WEY series). Moreover, the export sales recorded excellent performance in Q1, increased by 51% to 10 thousand.

### Accumulate (Maintain)

CMP: HKD 8.22  
 (Closing price as at 2 May 2018)  
 TARGET: HKD 9.60 (+17%)

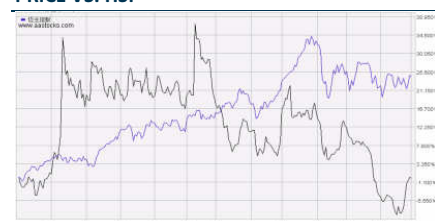
#### COMPANY DATA

|                       |              |
|-----------------------|--------------|
| O/S SHARES (MN) :     | 3100         |
| MARKET CAP (HKD MN) : | 25578        |
| 52 - WK HI/LO (HKD):  | 12.08 / 7.26 |

#### SHARE HOLDING PATTERN, %

|  |       |
|--|-------|
| Baoding Innovation Great Wall Asset Management | 56.04 |
| Blackrock                                      | 6.52  |

#### PRICE VS. HSI



Source: Phillip Securities (HK) Research

#### KEY FINANCIALS

| CNY mn         | FY16   | FY17    | FY18E   | FY19E   |
|----------------|--------|---------|---------|---------|
| Net Sales      | 98,616 | 101,170 | 117,206 | 128,750 |
| Net Profit     | 10,551 | 5,027   | 8,659   | 9,507   |
| EPS, CNY       | 1.16   | 0.55    | 0.95    | 1.04    |
| P/E, x         | 6.3    | 12.4    | 7.0     | 6.4     |
| BVPS, CNY      | 5.18   | 5.38    | 6.14    | 6.78    |
| P/BV, x        | 1.4    | 1.3     | 1.1     | 1.0     |
| DPS (CNY)      | 0.35   | 0.17    | 0.29    | 0.32    |
| Div. Yield (%) | 4.8%   | 2.5%    | 4.4%    | 4.8%    |

Source: Company reports, Phillip Securities Est.

Research Analyst  
**ZhangJing**  
 (+ 86 51699400-103)  
 zhangjing@phillip.com.cn

### Implementation of Strategy for New Energy Development is Underway

Since the company lags quite behind in adopting strategies to develop new energy automobile, it is now picking up pace in this regard. Apart from the transfer right for new energy points gained by becoming a shareholder of YOGOMO, the company has also acquired exclusive selling right for part of the lithium concentrate by buying a share of Pilbara (Australia) with RMB0.146 billion, and attached more importance to new energy automobile in accordance with the cooperation agreements with BMW. The first electric version of its new energy automobile, C30EV, entered the market in last May, and recorded sales of 2,718 last year; while the first type of hybrid electric vehicle, P8 (WEY series) will make its debut in the automobile exhibition in Beijing in April, and the electric sedan will also be unveiled in the second half of 2018.

In terms of technology, the company plans to conduct research and development of the frames, EV, HEV and PHEV, at the same time and work on the development of FCV. In the future, it will invest RMB30 billion in research and development of the new energy vehicle, smart car and vital components. By doing so, the R&D expense will be transformed into capital, which will lessen the operation pressure in the short term.

### Investment Thesis

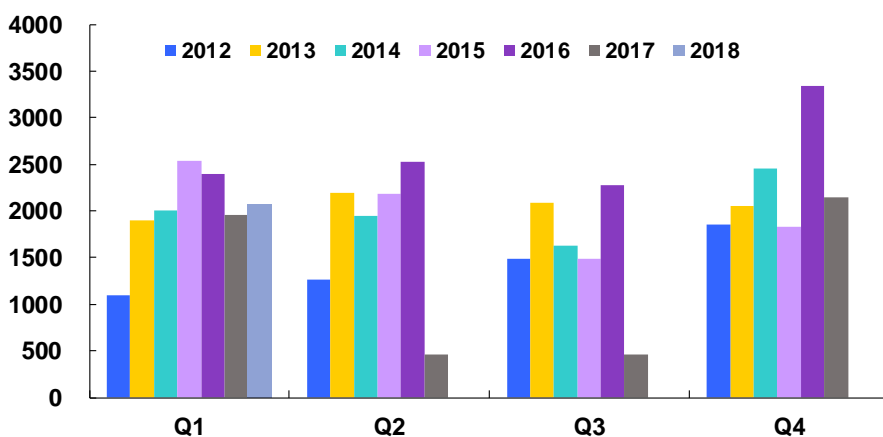
We believe that Great Wall Motor has embarked on its right path to the transformation and upgrading and is improving its profitability. Therefore, we expect that the company will be excelled in its performance in 2018 and will accelerate its development after implementation of the new energy strategy in 2019.

In terms of valuation, we adjust our target price to HK\$9.6, equivalent to 8.2/7.5 P/E ratio in 2018/2019. We maintain the rating of “Accumulate”. (Closing price as at 2 May 2018)

### Risk

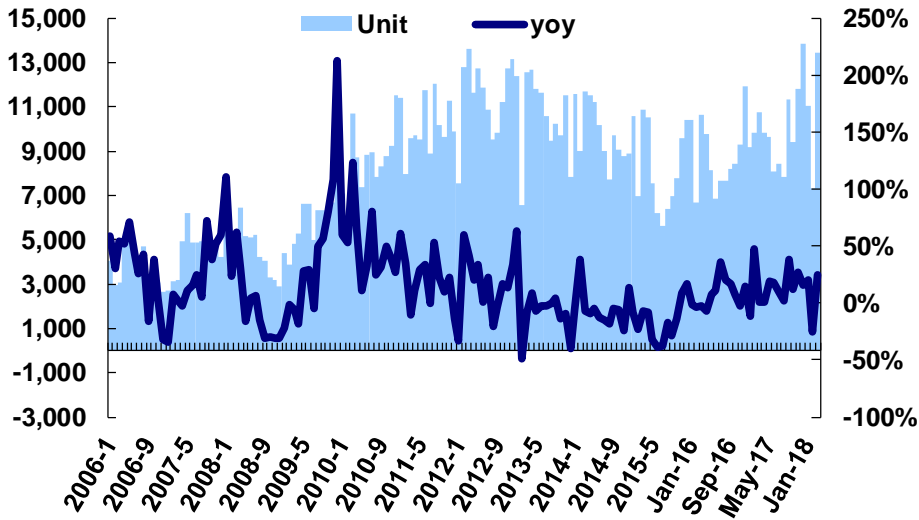
- New vehicle sales fall short of expectations
- The SUV market dramatically worsens
- The progress of new energy vehicle project is poorer than expectations

### GWM's Quarterly results



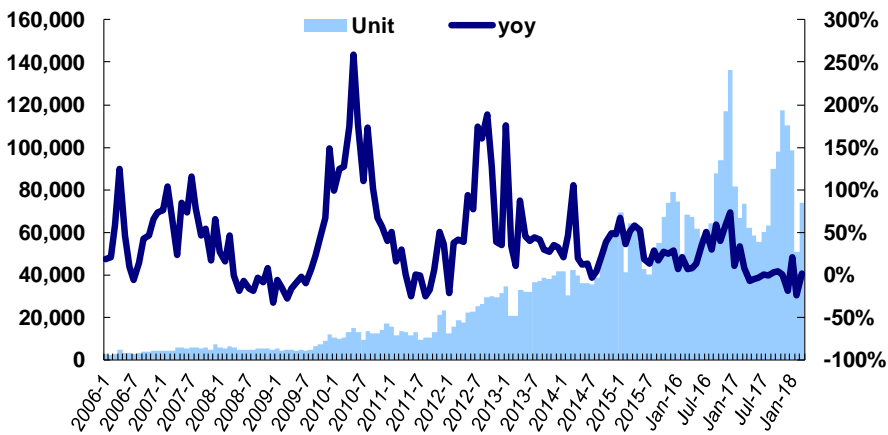
Source: Company, Phillip Securities Hong Kong Research

**GWM's Pickup monthly sales**



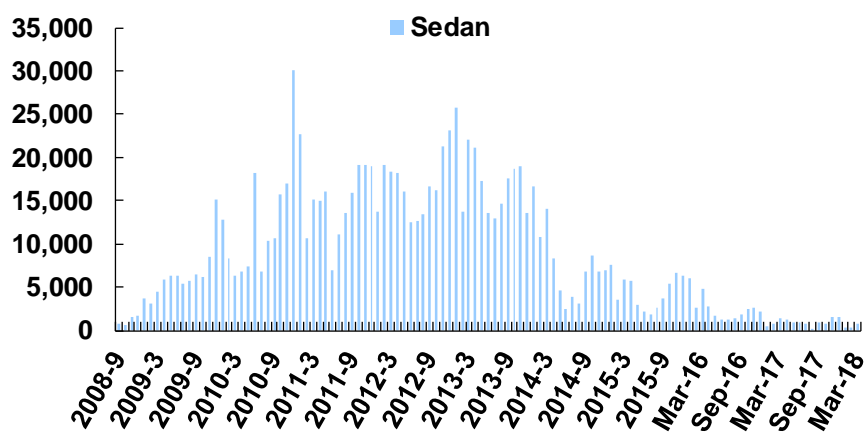
Source: Company, Phillip Securities Hong Kong Research

**GWM's SUV monthly sales**



Source: Company, Phillip Securities Hong Kong Research

GWM's Sedan monthly sales



Source: Company, Phillip Securities Hong Kong Research

Peer Comparison

| Ticker  | Name           | Market Cap (HK\$ Billion) | Liqu-Mar-Cap (HK\$ Billion) | PE    |       |       | PB (MRQ) |
|---------|----------------|---------------------------|-----------------------------|-------|-------|-------|----------|
|         |                |                           |                             | TTM   | 18E   | 19E   |          |
| 2333.HK | 长城汽车           | 105.96                    | 25.48                       | 11.67 | 7.71  | 6.58  | 1.17     |
| 香港 (S)  |                |                           |                             |       |       |       |          |
|         | 最高值            | 194.3                     | 194.3                       | 35.57 | 26.57 | 21.88 | 4.71     |
|         | 中位值            | 90.16                     | 28.48                       | 12.58 | 7.71  | 6.18  | 1.15     |
| 0175.HK | 吉利汽车           | 194.3                     | 194.3                       | 15.27 | 11    | 8.33  | 4.71     |
| 1211.HK | 比亚迪股份          | 159.5                     | 49.41                       | 35.57 | 26.57 | 21.88 | 2.14     |
| 2238.HK | 广汽集团           | 144.17                    | 31.47                       | 7.52  | 5.79  | 4.88  | 1.13     |
| 0489.HK | 东风集团股份         | 74.36                     | 24.64                       | 4.42  | 4.16  | 4.01  | 0.57     |
| 1114.HK | BRILLIANCE CHI | 70.63                     | 70.63                       | 13.49 | 7.97  | 6.18  | 2.23     |
| 1958.HK | 北京汽车           | 56.21                     | 15.55                       | 18.08 | 6.64  | 4.96  | 1.01     |
| 1122.HK | 庆铃汽车股份         | 6.3                       | 3.15                        | 10.61 | --    | --    | 0.68     |

Source: Wind, Phillip Securities Hong Kong Research

## Financials

| FYE DEC                          | FY13           | FY14           | FY15           | FY16           | FY17           | FY18F          | FY19F          |
|----------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| <b>Valuation Ratios</b>          |                |                |                |                |                |                |                |
| P/E (X), adj.                    | 7.2            | 7.4            | 7.8            | 6.3            | 12.4           | 7.0            | 6.4            |
| P/B (X)                          | 2.1            | 1.8            | 1.6            | 1.4            | 1.3            | 1.1            | 1.0            |
| Dividend Yield (%)               | 4.2%           | 4.1%           | 3.8%           | 4.8%           | 2.5%           | 4.4%           | 4.8%           |
| Dividend payout ratio (%)        | 30.3%          | 30.3%          | 29.4%          | 30.3%          | 30.9%          | 30.6%          | 30.7%          |
| <b>Per share data (RMB)</b>      |                |                |                |                |                |                |                |
| EPS, reported                    | 0.90           | 0.88           | 0.88           | 1.16           | 0.55           | 0.95           | 1.04           |
| EPS, adj.                        | 0.90           | 0.88           | 0.88           | 1.16           | 0.55           | 0.95           | 1.04           |
| DPS                              | 0.27           | 0.27           | 0.26           | 0.35           | 0.17           | 0.29           | 0.32           |
| BVPS                             | 3.07           | 3.66           | 4.20           | 5.18           | 5.38           | 6.14           | 6.78           |
| <b>Growth &amp; Margins (%)</b>  |                |                |                |                |                |                |                |
| <b>Growth</b>                    |                |                |                |                |                |                |                |
| Revenue                          | 31.6%          | 10.2%          | 21.5%          | 29.7%          | 2.6%           | 15.9%          | 9.8%           |
| EBIT                             | 46.0%          | -3.3%          | 3.4%           | 27.1%          | -48.4%         | 73.1%          | 8.7%           |
| Net Income, adj.                 | 44.5%          | -2.2%          | 0.3%           | 30.9%          | -52.4%         | 72.2%          | 9.8%           |
| <b>Margins</b>                   |                |                |                |                |                |                |                |
| Gross margin                     | 28.6%          | 27.7%          | 25.2%          | 24.6%          | 19.0%          | 20.6%          | 20.5%          |
| EBIT margin                      | 17.3%          | 15.2%          | 12.9%          | 12.7%          | 6.4%           | 9.5%           | 9.4%           |
| Net Profit Margin                | 14.5%          | 12.8%          | 10.6%          | 10.7%          | 5.0%           | 7.4%           | 7.4%           |
| <b>Key Ratios</b>                |                |                |                |                |                |                |                |
| ROE (%)                          | 33.22%         | 26.17%         | 22.46%         | 24.65%         | 10.43%         | 16.47%         | 16.12%         |
| ROA (%)                          | 17.28%         | 14.11%         | 12.10%         | 12.85%         | 4.96%          | 7.36%          | 7.32%          |
| <b>Income Statement (RMB mn)</b> |                |                |                |                |                |                |                |
| <b>Revenue</b>                   | <b>56,784</b>  | <b>62,599</b>  | <b>76,033</b>  | <b>98,616</b>  | <b>101,170</b> | <b>117,206</b> | <b>128,750</b> |
| <b>Gross profit</b>              | <b>16,246</b>  | <b>17,347</b>  | <b>19,169</b>  | <b>24,255</b>  | <b>19,203</b>  | <b>24,121</b>  | <b>26,394</b>  |
| Operating profit                 | 9,777          | 9,479          | 9,737          | 12,466         | 6,327          | 11,126         | 12,066         |
| EBIT                             | 9,836          | 9,511          | 9,835          | 12,496         | 6,451          | 11,165         | 12,141         |
| Profit before tax                | 9,920          | 9,640          | 9,688          | 12,483         | 6,233          | 10,654         | 11,706         |
| <b>Tax</b>                       | <b>(1,688)</b> | <b>(1,599)</b> | <b>(1,628)</b> | <b>(1,929)</b> | <b>(1,190)</b> | <b>(1,971)</b> | <b>(2,166)</b> |
| Profit for the period            | 8,232          | 8,041          | 8,060          | 10,554         | 5,043          | 8,683          | 9,540          |
| Minority interests               | (8)            | (0)            | 1              | (3)            | (16)           | (24)           | (33)           |
| Total capital share              | 3,042          | 3,042          | 9,129          | 9,127          | 9,127          | 9,127          | 9,127          |
| <b>Net profit</b>                | <b>8,224</b>   | <b>8,041</b>   | <b>8,061</b>   | <b>10,551</b>  | <b>5,027</b>   | <b>8,659</b>   | <b>9,507</b>   |

Source: PSR

(Financial figures as at 2 May 2018)

### 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>.

© 2018 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](http://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](http://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](http://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](http://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](http://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](http://www.kingandshaxson.com)

**AUSTRALIA**
**PhillipCapital Australia**

Level 10, 330 Collins Street

Melbourne VIC 3000

Tel (+61) 3 8633 9803 Fax (+61) 3 8633 9899

[www.phillipcapital.com.au](http://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](http://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](http://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](http://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](http://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](http://www.ashaphillip.net/home.htm)