

GWM (2333 HK)

Inventory Reduction Led to Considerable Sales Decline in the End Month

Hong Kong | Automobile | Update Report

22 January 2020

Investment Summary

Inventory Reduction Led to Considerable Sales Decline in the End Month

GWM (Great Wall Motor) released the sales data of December, with wholesale sales of 106,000 vehicles, decreasing 21% yoy and 8% mom. The total annual sales volume was 1.06 million vehicles, up 0.7% yoy.

The main reasons for the yoy decline in sales in December: 1) according to the usual practice, the company needs create a more favourable inventory environment for the coming year and actively control the pace of wholesale; 2) at the same time, as the spring festival comes earlier this year, the timing for inventory reduction will also be moved up. Seeing from the terminal retail, the demand for the company's products is still relatively strong, with retail sales of about 112,000 vehicles in December, up 7.5% yoy and a strong mom growth of 47.7%, which is far better than the decrease of 5.4% yoy and 35% mom growth of the industry as a whole.

Key Models Remained Robust

Key models continued to maintain steady growth, with sales of H6/M6/F7 of about 42,000/19,000/10,000, respectively, up -17%/26%/-6.4% yoy. Since the launch of the 2019 M6 in the third quarter, its sales volume has continued to rise, approaching 20,000 vehicles at the end of the year. 770,000 Haval models were sold in the whole year, the same as that of the previous year. 9,394 vehicles WEY models were sold, with cumulative sales of 100,000 vehicles for the year, down 28%. Great Wall Pao, the high-end pickup truck brand that was launched in October continued to climb steadily, with sales of 6,259/7,020 vehicles in the following two months after launch, driving the sales of pickup trucks up by 7.85% to 149,000 vehicles throughout the year. We believe that the pressure on the downward movement of the vehicle structure in the cold cycle environment of the car market will be partially offset by the scale benefit of stabilizing sales volume. It is expected that the company's bicycle profit will show a yoy flat trend in the fourth quarter and a slight decline from the previous quarter.

Products and Channels Enhanced to Promote Domestic and Overseas Market Footprint

At the beginning of 2019, GWM released Haval "521" globalized strategy. It planned to spend five years to achieve annual sales of 2 million vehicles, making Haval the world's leading professional SUV brand. At present, the annual sales volume of 770,000 Haval models means that the compound annual growth rate in the next five years will reach 21%. Considering that the domestic SUV industry has entered the red ocean market, the process of overseas market footprint is expected to accelerate. Haval already has established overseas KD assembly plants in Malaysia, Ecuador, Tunisia and Bulgaria. Besides, a complete vehicle manufacturing plant in Tula, Russia has been completed, with an annual output of 80,000 vehicles in the first phase and 150,000 vehicles in the second phase. This will expand Haval's sales in Russia as well as the eastern European market. Recently, GWM signed an agreement with General Motors to acquire the latter's Tarigan plant in India that has an annual output of 165,000 complete vehicles and 160,000 power assemblies. India's auto market is still in its growing phase, with a total sales volume of 4.4 million vehicles in 2018, a CAGR of about 8% in the past decade and a population of only 22 vehicles per 1,000 inhabitants. There is huge room for future development.

Accumulate (Upgrade)

CMP HKD 5.97

(Closing price as at 20 January)

TARGET HKD 6.45 (+8%)

COMPANY DATA

O/S SHARES (MN):	3100
MARKET CAP (HKD MN):	18504
52 - WK HI/LO (HKD):	7.26 /4.64

SHARE HOLDING PATTERN, %

Baoding Innovation Great Wall Asset Management	56.04
Blackrock	6.52

PRICE VS. HSI



Source: Aastock, Phillip Securities (HK) Research

KEY FINANCIALS

CNY mn	FY17	FY18	FY19E	FY20E
Net Sales	101,170	99,230	97,146	103,087
Net Profit	5,027	5,207	4,523	5,143
EPS, CNY	0.55	0.57	0.50	0.56
P/E, x	9.2	9.3	10.8	9.5
BVPS, CNY	5.38	5.75	5.96	6.34
P/BV, x	0.9	0.9	0.9	0.8
DPS (CNY)	0.17	0.29	0.20	0.23
Div. Yield (%)	3.4%	5.5%	3.7%	4.3%

Source: Company reports, Phillip Securities Est.

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In addition, the Spotlight Automotive, a joint venture with BMW, is nearly built and is expected to commission in 2022. The brand will be producing MINI fuel-fired cars for export and engaging in research and development of pure electric cars.

In terms of new products, when the new platform of GWM is put into production in the second half of 2020, it will make up for the weaknesses of the company's lightweight products and provide a stronger engine power distribution system. We are looking forward to the launch of two new SUV models built on this platform. New energy brand Ora will also launch a new electric vehicle R2. The first hydrogen fuel cell vehicle is expected to be officially launched in 2022.

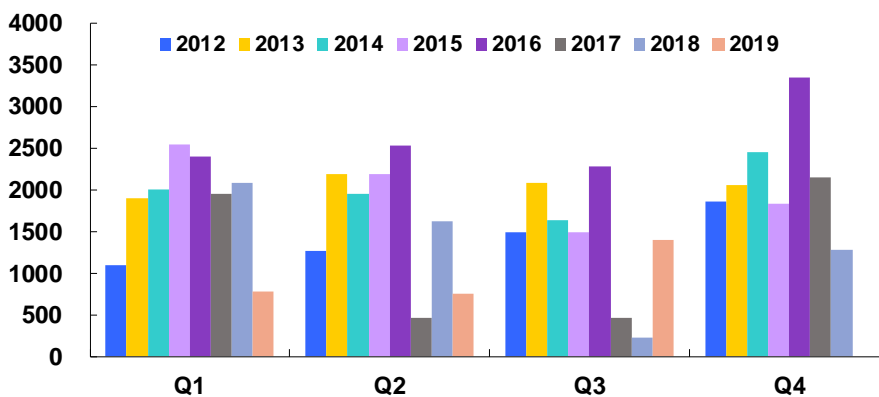
Investment Thesis

In terms of valuation, we adjust our target price to HK\$6.45, equivalent to 11.7/10.3/8.7x P/E and 1.0/0.9/0.9x P/B ratio in 2019/2020/2021. We give the rating of "Accumulate". (Closing price as at 20 January)

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 Forward P/E P/B trend



Source: Bloomberg, Phillip Securities Hong Kong Research

Financials

FYE DEC	FY16	FY17	FY18	FY19F	FY20F	FY21F
Valuation Ratios						
P/E (X), adj.	4.6	9.2	9.3	10.8	9.5	8.0
P/B (X)	1.0	0.9	0.9	0.9	0.8	0.8
Dividend Yield (%)	6.6%	3.4%	5.5%	3.7%	4.3%	5.6%
Dividend payout ratio (%)	30.3%	30.9%	50.8%	40.4%	40.8%	44.9%
Per share data (RMB)						
EPS, reported	1.16	0.55	0.57	0.50	0.56	0.67
EPS, adj.	1.16	0.55	0.57	0.50	0.56	0.67
DPS	0.35	0.17	0.29	0.20	0.23	0.30
BVPS	5.18	5.38	5.75	5.96	6.34	6.78
Growth & Margins (%)						
Growth						
Revenue	29.7%	2.6%	-1.9%	-2.1%	6.1%	7.7%
EBIT	27.1%	-48.4%	-7.3%	-16.8%	13.4%	20.0%
Net Income, adj.	30.9%	-52.4%	3.6%	-13.1%	13.7%	18.5%
Margins						
Gross margin	24.6%	19.0%	17.9%	16.6%	16.6%	16.9%
EBIT margin	12.7%	6.4%	6.0%	5.1%	5.5%	6.1%
Net Profit Margin	10.7%	5.0%	5.2%	4.7%	5.0%	5.5%
Key Ratios						
ROE (%)	24.65%	10.43%	10.24%	8.46%	9.16%	10.18%
ROA (%)	12.85%	4.96%	4.68%	4.00%	4.40%	5.02%
Income Statement (RMB mn)						
Revenue	98,616	101,170	99,230	97,146	103,087	110,979
Gross profit	24,255	19,203	17,749	16,078	17,143	18,755
Operating profit	12,466	6,327	5,588	4,312	4,665	5,687
EBIT	12,496	6,451	5,983	4,977	5,645	6,777
Profit before tax	12,483	6,233	6,477	5,556	6,301	7,453
Tax	(1,929)	(1,190)	(1,229)	(994)	(1,128)	(1,334)
Profit for the period	10,554	5,043	5,248	4,562	5,173	6,119
Minority interests	(3)	(16)	(40)	(39)	(30)	(24)
Total capital share	9,127	9,127	9,127	9,127	9,127	9,127
Net profit	10,551	5,027	5,207	4,523	5,143	6,095

Source: PSR

(Closing price as at 20 January)

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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