

# GWM (2333 HK)

## Great Potential of Pickup Business

Hong Kong | Automobile | Update Report

21 July 2020

### Investment Summary

#### Excellent Pickup Performance Drives the Sales Volume in June to Surge by 30% YoY

GWM released the latest sales data, with wholesale sales of 82,036 units in June, increasing 29.6% yoy following the approximately 30% surge in May, led the industry against the market trend, and remained the same mom. The sales volume of the four major brands (HAVAL, WEY, GWM Pickup and ORA) were 46,998, 5,653, 26,750, and 2,635, respectively, which increased 1,742 or 3.85%, decreased 1,102 or 16%, increased 19,224 or 255% and decreased 1,127 or 30%, respectively.

The main features of the sales in June are as follows, according to our analysis:

- 1) The demand of Wingle pickup and high-end pickup of "Pao" was constantly strong, with the monthly sales volume being 11,677 and 15,003 units, respectively, which contributed more than 90% of the increase by increasing 19,514 units yoy.
- 2) The China VI vehicle emission standards were adopted and the stock was reduced in the same period last year, which lowered the base of some models (M6/H9) last year, explaining around 40% of the increase.
- 3) The medium-to-high-end SUV (H6/F7/WEY series) was a little weak maybe due to elements including the approach to the end of the product cycle and the shift of production capability, which offset some benefits.

In 2020H1, the Company sold 395,000 units accumulatively, down 20% yoy. Specifically, the growth ratio of Q2 sales volume yoy turned positive, which was up 19%, compared with the -47% in Q1. It was also better than the average of the industry. Export was an exception. It fell by 32% yoy to 20,536 units owing to severe overseas pandemic.

#### Great Potential of Pickup Business

GWM sold pickups upon its foundation and had rich experience in the domestic pickup sector for decades. Enjoying a market share of approximately 50%, the sum of the 2nd to 7th in the industry, it was absolutely the king of pickup. Previously, pickups are classified as trucks in China and was restricted in terms of passage in cities and lifespan, which negatively affected the development of the pickup industry. The filtration rate of pickups in China was only 1.6%. Yunnan, Hebei, Henan, Liaoning, Hubei and Xinjiang lifted their city entry restriction on pickups one after another since 2016. In 2019, the Ministry of Transport cancelled the two certificates for pickups and promoted the "Three-in-one inspection". This year, Chongqing, Shaanxi, Jilin, Jiangxi, Jiangsu, Ningbo in Zhejiang, Hangzhou and Shanghai also lifted their restrictions one by one to accelerate economy recovery. Therefore, a new growth cycle of the pickup industry is expected. The specification of the high-end pickup series of "Pao" under GWM complied with the future pickup consumption trend of being high-end and industrialized. The series has great potential in the long run.

#### Increasing Investment to New Platforms and R&D Put Pressure on Short-Term profits

In the recent three years, the Company increased R&D investment and strengthened brand marketing. Given the worsening competition pressure, it proactively adjusted its strategies, enhanced the building of models and brand power of the four major brands of HAVAL, WEY, GWM Pickup and ORA, and expanded the interval of product prices. The enlarged market shares, corporate governance, organizational structure and rewarding mechanism of GWM have been improved, which laid a solid foundation for the future operations efficiency, though the growth rate of income and profits has been affected since 2017. In 2019, the net profits of GWM dropped by 13.6% yoy to RMB4.5 billion. The net loss was RMB650 million due to the impact of the pandemic in Q1 2020.

### Accumulate (Upgrade)

CMP HKD 6.73

(Closing price as at 17 July)

TARGET HKD 7.6 (+13%)

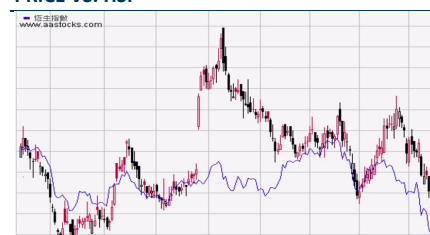
#### COMPANY DATA

O/S SHARES (MN):	3100
MARKET CAP (HKD MN):	20860
52 - WK HI/LO (HKD):	6.95 / 3.85

#### 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	FY18	FY19	FY20E	FY21E
Net Sales	99,230	96,211	95,035	109,487
Net Profit	5,207	4,497	4,130	5,845
EPS, CNY	0.57	0.49	0.45	0.64
P/E, x	10.5	12.3	13.4	9.5
BVPS, CNY	5.75	5.96	6.17	6.57
P/BV, x	1.0	1.0	1.0	0.9
DPS (CNY)	0.29	0.25	0.23	0.32
Div. Yield (%)	4.8%	4.1%	3.8%	5.3%

Source: Company reports, Phillip Securities Est.

#### Research Analyst

ZhangJing (+ 86 021-51699400-103)

zhangjing@phillip.com.cn

### The Brand New Platform to Initiate New Product Cycle in H2

In Q3 2020, the Company will launch Haval Big Dog, a new model based on its brand new module platform and a new H6, which will compensate the weakness of the company's products in terms of lightweight, module and expansion, and provide more diversified engine power specification. With the constant increase of platform-based products, the Company will shorten the model development cycle and weaken the generalization of parts in the future to increase the product competitiveness. As a result, its profitability is expected to increase. With regard to new energy vehicles, ORA will also launch R2, a brand new electric vehicle, and the first fuel cell and hydrogen vehicle is expected to be launched officially in 2022. In addition, the Spotlight Automotive, a joint venture with BMW, 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, which also has the potential to manufacture new energy models.

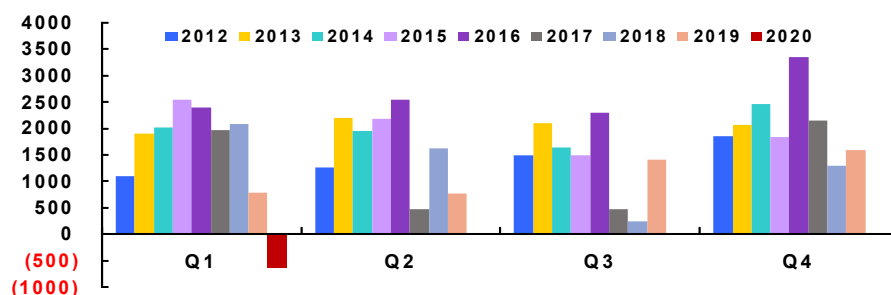
### Investment Thesis

In terms of valuation, we adjust our target price to HK\$7.6, equivalent to 15.1/10.7x P/E and 1.1/1.0x P/B ratio in 2020/2021. We give the rating of "Accumulate". (Closing price as at 20 July)

#### Risk

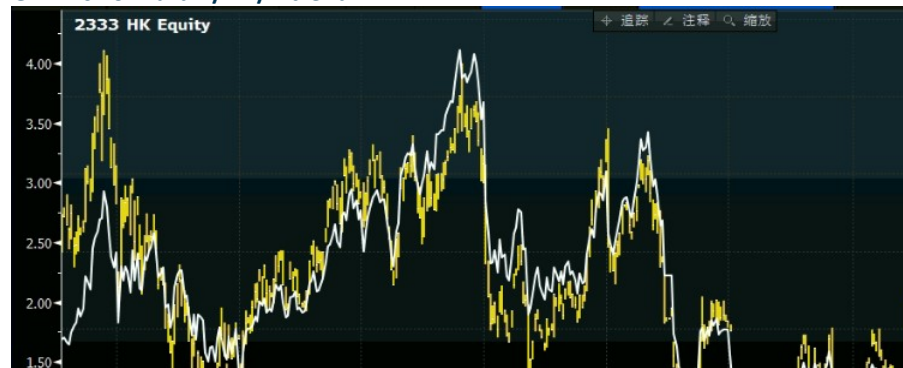
- New vehicle sales fall short of expectations
- The SUV market dramatically worsens
- The progress of new energy vehicle/Pickup is poorer than expectations

#### 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

	FY16	FY17	FY18	FY19	FY20F	FY21F
<b>Valuation Ratios</b>						
P/E (X), adj.	5.2	10.3	10.5	12.3	13.4	9.5
P/B (X)	1.2	1.1	1.0	1.0	1.0	0.9
Dividend Yield (%)	5.8%	3.0%	4.8%	4.1%	3.8%	5.3%
Dividend payout ratio (%)	30.3%	30.9%	50.8%	50.3%	50.8%	50.0%
<b>Per share data (RMB)</b>						
EPS, reported	1.16	0.55	0.57	0.49	0.45	0.64
EPS, adj.	1.16	0.55	0.57	0.49	0.45	0.64
DPS	0.35	0.17	0.29	0.25	0.23	0.32
BVPS	5.18	5.38	5.75	5.96	6.17	6.57
<b>Growth &amp; Margins (%)</b>						
<b>Growth</b>						
Revenue	29.7%	2.6%	-1.9%	-3.0%	-1.2%	15.2%
EBIT	27.1%	-48.4%	-7.3%	-20.6%	-7.6%	48.3%
Net Income, adj.	30.9%	-52.4%	3.6%	-13.6%	-8.2%	41.5%
<b>Margins</b>						
Gross margin	24.6%	19.0%	17.9%	17.2%	16.9%	17.7%
EBIT margin	12.7%	6.4%	6.0%	4.9%	4.6%	5.9%
Net Profit Margin	10.7%	5.0%	5.2%	4.7%	4.3%	5.3%
<b>Key Ratios</b>						
ROE (%)	24.65%	10.43%	10.24%	8.41%	7.46%	10.05%
ROA (%)	12.85%	4.96%	4.68%	4.00%	3.58%	4.88%
<b>Income Statement (RMB mn)</b>						
Revenue	<b>98,616</b>	<b>101,170</b>	<b>99,230</b>	<b>96,211</b>	<b>95,035</b>	<b>109,487</b>
Gross profit	24,255	19,203	17,749	16,526	16,089	19,324
Operating profit	12,466	6,327	5,588	4,191	4,008	5,803
EBIT	12,496	6,451	5,983	4,750	4,388	6,509
Profit before tax	12,483	6,233	6,477	5,101	4,764	7,030
Tax	(1,929)	(1,190)	(1,229)	(570)	(615)	(1,160)
Profit for the period	10,554	5,043	5,248	4,531	4,150	5,870
Minority interests	3	16	40	34	20	25
Total capital share	9,127	9,127	9,127	9,127	9,127	9,127
<b>Net profit</b>	<b>10,551</b>	<b>5,027</b>	<b>5,207</b>	<b>4,497</b>	<b>4,130</b>	<b>5,845</b>

Source: PSR

(Closing price as at 17 July)

### 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>.

© 2020 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)