

# GWM (2333 HK)

## Sales Volume Increased with Stronger Profitability

Hong Kong | Automobile | Update Report

26 July 2021

### Investment Summary

#### H1 Results Were Outstanding, with Profit up by 205% Y-o-Y

According to the results report, in the first half of 2021, GWM reported operating revenue of RMB62.16 billion, up by 73.0% Y-o-Y. The net profit attributable to the parent company was RMB3,498 million, up by 205.2% Y-o-Y. The net profit attributable to the parent company excluding non-recurring items was RMB2.83 billion, up by 252.8% Y-o-Y.

On a closer look at the quarters, in Q1 and Q2, the Company recorded operating revenue of RMB31.12 billion and RMB31,042 million, up by 150.62% and 32.02% Y-o-Y, respectively. The net profit attributable to the parent company was RMB1,639 million and RMB1,859 million, up by 352.2% and 3.51% Y-o-Y, respectively. The net profit attributable to the parent company excluding non-recurring items was RMB1,335 million and RMB1,496 million, up by 278% and down by 3.6% Y-o-Y, respectively. The main reason for the results growth was the increase in the overall model sales volume and the upgrade of product mix, which led to the improvement in profitability.

#### Sales Volume Increased with Stronger Profitability

In H1, GWM sold 618,200 vehicles accumulatively, up by 56.47% Y-o-Y. The three major technology brands, including Lemon, Tank and Coffee Intelligence, have significantly boosted the Company's new model sales. New models such as the third-generation Haval H6, the ORA brand and the Tank 300 have received a good market response.

On a closer look at the sub-brands, in H1, the cumulative sales of the Haval brand were 391,500 units, up by 49.32% Y-o-Y, an increase of 38,600 units or 10.9% from the 352,900 units in 2019 without the impact of the pandemic. The cumulative sales volume of the ORA brand reached 52,500 units, up by 456.9% Y-o-Y. In H1, the cumulative sales volume of the ORA brand was the same as last year. Tank, the new brand launched this year, achieved sales volume of 33,000 units. The cumulative sales volume of Great Wall pickup trucks were 118,100 units, up by 23% Y-o-Y. The sales volume of the WEY brand was 23,000 units, a decrease of 13.7% Y-o-Y.

On a closer look at the quarters, the sales volume in Q1 and Q2 was 339,000 units and 279,000 units, respectively. In the second quarter, with a shortage of chips and a 18% decline in vehicles sales from the previous quarter, the revenue fell only by 0.3% Q-o-Q, and net profit still increased by 13% Q-o-Q. It is mainly due to the increased proportion of new models. Meanwhile, the Company prioritized the limited chip resources for higher-end models, driving an increase in the average selling price. What's more, the profit of single vehicles greatly benefited from the scale effect brought by platform-based production. In the second quarter, the Company's ASP reached RMB111,100, an increase of 15.7% Y-o-Y, and a significant increase of 21.0% Q-o-Q. The net profit of single vehicles was RMB6,700, a decrease of 9.3% Y-o-Y, and a surge of 37.5% Q-o-Q.

### Accumulate (Maintain)

CMP HKD 31.6

(Closing price as at 22 July)

TARGET HKD 36.2 (+14.56%)

#### COMPANY DATA

O/S SHARES (MN):	9172
MARKET CAP (HKD MN):	97945
52 - WK HI/LO (HKD):	32 / 7.19

#### SHARE HOLDING PATTERN, %

Baoding Innovation Great Wall Asset Management	55.74
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#### PRICE VS. HSI



Source: Aastock, Phillip Securities (HK) Research

#### KEY FINANCIALS

CNY bn	FY19	FY20	FY21E	FY22E
Net Sales	962	1033	1371	1677
Net Profit	45	54	92	127
EPS, CNY	0.49	0.59	1.00	1.38
P/E, x	57.7	45.5	26.4	19.2
BVPS, CNY	5.96	6.25	6.97	7.87
P/BV, x	4.8	4.3	3.8	3.4
DPS (CNY)	0.25	0.28	0.49	0.66
Div. Yield (%)	0.9%	1.1%	1.8%	2.5%

Source: Company reports, Phillip Securities Est.

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As for the prospect, new models such as Haval's new flagship SUV concept car HAVALXY, as well as WEY Macchiato and Latte will be launched sequentially in H2. After that, for the ORA Lightning Cat and Punk Cat, will continue to expand the matrix of new energy models. Tank 300 city version, 500, 600, 800 and 700 is expected to be included in the Tank camp successively. As the shortage of chips is alleviating, GWM's sales volume is expected to continue to rise.

### The 2025 Strategic Development Objectives Are Clear

On June 28, GWM announced the 2025 Strategy - "Green Smart Play": In 2025, the Company will achieve the global annual sales target of 4 million vehicles, 80% of which are new energy vehicles, with operating revenue exceeding RMB600 billion. In the future, the accumulated R&D investment will reach RMB100 billion. GWM will achieve its first zero-carbon plant by 2023, and ride into top three in global hydrogen energy market share by 2025.

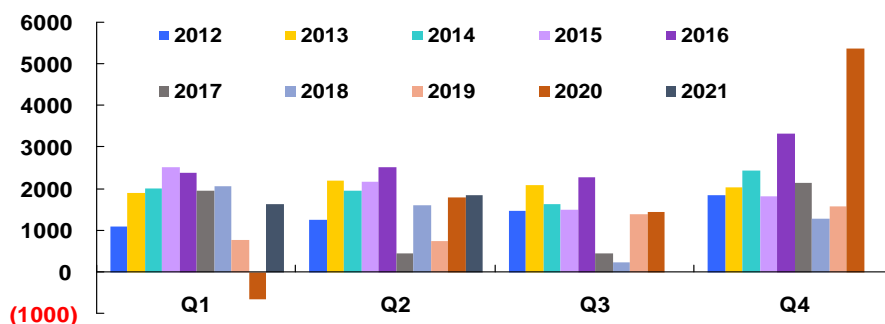
The Company also exhibited 112 core technological achievements, such as cobalt-free batteries, DHT (dedicated hybrid technology), 3.0T+9AT/9HATP2 powertrain, wire-controlled chassis, smart cockpit and other technologies. In addition, it released the Smart Coffee System 2.0 and set up a coffee intelligent ecological alliance. We believe that the Company's strategic development objectives for 2025 are clear, and the forward-looking technological innovation layout is expected to continuously strengthen the Company's strength in new energy vehicles and intellectualization in the future, and open up the future valuation space.

### Investment Thesis

It can be seen that with the benefit of new technological platform and strong car model cycle, GWM has extended its business to specific markets by consolidating and maintaining its steady growth of SUV business, and it has made breakthroughs as the new car models have clear competitive advantages. We are optimistic about the Company's future with a clear long-term goal.

Considering the better-than-expected sales and revised financial forecast, we raised our target price to HK\$36.2, equivalent to 30/22/16.4 x P/E and 4.4/3.9/3.4x P/B ratio in 2021/2022/2023. We reaffirm the rating of "Accumulate". (Closing price as at 22 July)

#### GWM's Quarterly results

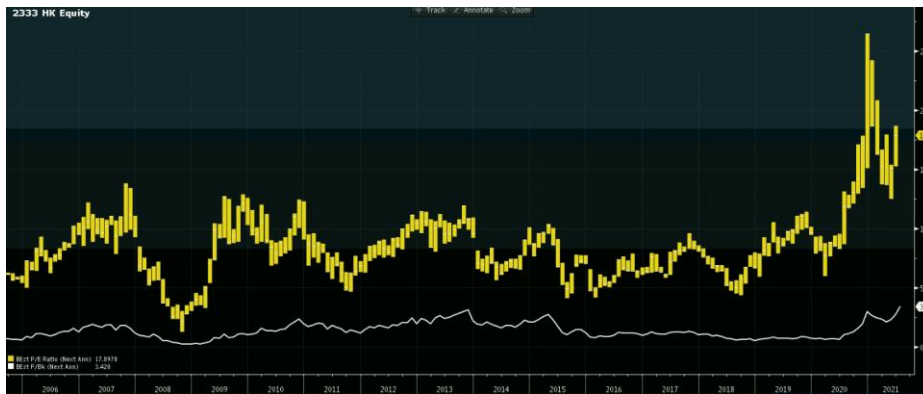


Source: Company, Phillip Securities Hong Kong Research

#### Risk

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

### GWM's Forward P/E P/B (y+2) trend



Source: Bloomberg, Phillip Securities Hong Kong Research

## Financials

	FY18	FY19	FY20	FY21F	FY22F	FY23F
<b>Valuation Ratios</b>						
P/E (X), adj.	49.2	57.7	45.5	26.4	19.2	14.3
P/B (X)	4.9	4.8	4.3	3.8	3.4	2.9
Dividend Yield (%)	1.0%	0.9%	1.1%	1.8%	2.5%	3.2%
Dividend payout ratio (%)	50.8%	50.3%	47.8%	48.8%	47.7%	45.8%
<b>Per share data (RMB)</b>						
EPS, reported	0.57	0.49	0.59	1.00	1.38	1.86
EPS, adj.	0.57	0.49	0.58	1.00	1.38	1.86
DPS	0.29	0.25	0.28	0.49	0.66	0.85
BVPS	5.75	5.96	6.25	6.97	7.87	9.04
<b>Growth &amp; Margins (%)</b>						
<b>Growth</b>						
Revenue	-1.9%	-3.0%	7.4%	32.7%	22.3%	25.6%
EBIT	-7.3%	-20.6%	39.5%	65.0%	37.8%	34.3%
Net Income, adj.	3.6%	-13.6%	19.3%	71.9%	37.7%	34.2%
<b>Margins</b>						
Gross margin	17.9%	17.2%	17.2%	18.6%	19.2%	19.9%
EBIT margin	6.0%	4.9%	6.4%	8.0%	9.0%	9.6%
Net Profit Margin	5.2%	4.7%	5.2%	6.7%	7.6%	8.1%
<b>Key Ratios</b>						
ROE (%)	10.24%	8.41%	9.60%	15.19%	18.63%	21.95%
ROA (%)	4.68%	4.00%	4.02%	5.75%	7.04%	8.22%
<b>Income Statement (RMB mn)</b>						
<b>Revenue</b>	<b>99,230</b>	<b>96,211</b>	<b>103,308</b>	<b>137,055</b>	<b>167,673</b>	<b>210,654</b>
<b>Gross profit</b>	<b>17,749</b>	<b>16,526</b>	<b>17,777</b>	<b>25,533</b>	<b>32,193</b>	<b>41,920</b>
Operating profit	5,588	4,191	4,781	9,834	13,434	18,415
EBIT	5,983	4,750	6,624	10,930	15,060	20,228
Profit before tax	6,477	5,101	6,227	11,039	15,195	20,391
<b>Tax</b>	<b>(1,229)</b>	<b>(570)</b>	<b>(865)</b>	<b>(1,821)</b>	<b>(2,507)</b>	<b>(3,364)</b>
Profit for the period	5,248	4,531	5,362	9,217	12,688	17,026
Minority interests	40	34	0	0	0	0
Total capital share	9,127	9,127	9,176	9,176	9,176	9,176
<b>Net profit</b>	<b>5,207</b>	<b>4,497</b>	<b>5,362</b>	<b>9,217</b>	<b>12,688</b>	<b>17,026</b>

Source: PSR

(Closing price as at 22 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

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