

GWM (2333 HK)

Sales Structure Is Continuously Optimized

Hong Kong | Automobile | Update Report

17 June 2022

Investment Summary

2021H2 Results Are Slightly Lower than Expected Due to Chip shortage and Rising Raw Material Prices

In 2021, Great Wall Motor reported operating revenue of RMB132.17 billion, up 32% yoy. The net profit attributable to the parent company was RMB6.73 billion, up 25.4% yoy. The earnings per share was RMB0.73, and the cash dividend per share was RMB0.07 (tax-inclusive). Including a mid-term dividend of RMB0.3 in 2021, the dividend payout ratio reached 51%. The gross margin in 2021 was 16.16%, down 1.05 ppts yoy. Due to stock option expenses and increased investment in intelligence, electrification and new model R&D, administration expenses and R&D expenses surged to RMB4.04 billion and RMB4.49 billion, respectively, up 58.4% and 46.4% yoy, respectively. Eventually, the net profit margin fell 0.26 ppts to 4.93%.

Last year's results were slightly lower than we expected, mainly due to the serious chip shortage in the automotive industry in H2. The production and delivery pace of vehicle factories was interrupted, while the continuous price rise of raw materials affected the gross margin. In H2, Great Wall Motor saw a 7.5% year-on-year decrease in sales volume, a 10.47% year-on-year increase in revenue, and a 24.2% year-on-year decrease in net profit. Among them, Great Wall Motor reported a year-on-year decrease of 6.9% and 35.8%, respectively in the net profit attributable to the parent company in Q3 and Q4. The gross margin was 17.33% and 15.3%, respectively. Meanwhile, the net profit margin in Q4 fell to 3.9% from 4.9% in Q3 due to factors such as the centralized accrual of year-end employee bonus expenses, the accrual of charging equity of Ora users, and the accrual of equity incentive expenses.

In 2021, Great Wall Motor sold 237 thousand pickups, 907 thousand SUVs and 137 thousand sedans, respectively, a year-on-year increase of 4%, 9% and 135%, respectively. New energy models and high-end models represented by Ora and Wey have made great contributions. In 2021, Great Wall Motor sold 139 thousand new energy vehicles, a year-on-year increase of 137%.

2022Q1 Results Basically Stay Flat, and Sales Structure Is Continuously Optimized

In Q1 2022, Great Wall Motor's operating revenue was RMB33.6 billion, up 8% yoy. The net profit attributable to the parent company was RMB1.63 billion, down 0.3% yoy, basically flat. In Q1, the Company's gross margin was 17.2%, up 2.1 ppts yoy and up 1.9 ppts qoq, mainly due to the product structure optimization and the reduction of one-off factors such as expense accruals, which offset the impact of rising raw material prices and chip shortage.

Since the beginning of 2022, vehicle factories have raised the selling price of products to hedge against the rising cost of raw materials, and Great Wall Motors is no exception. The Company has raised the minimum selling price of Ora Good Cat and Wey by approximately RMB1,600-12,000. On the other hand, under the premise of short supply, the Company has prioritized the resource allocation for high-value models such as Tank, and discontinued some low-priced models such as Ora Black Cat and White Cat. In terms of the average price of single vehicles, the average price of single vehicles of Great Wall Motor in 2021 was RMB106 thousand, a year-on-year increase of RMB13 thousand. In Q1 2022, the average price of single vehicles was RMB119 thousand, a year-on-year increase of RMB27 thousand, a record high.

BUY (Upgrade)

CMP HKD 16.44

(Closing price as at 15 June)

TARGET HKD 24.7 (+50.24%)

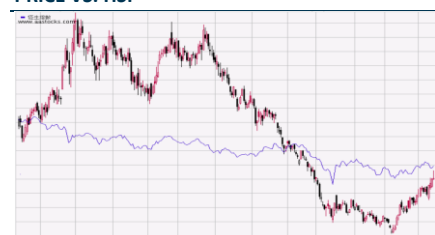
COMPANY DATA

O/S SHARES (MN):	9236
MARKET CAP (HKD MN):	50956
52 - WK HI/LO (HKD):	39 / 8.96

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 mn	FY21	FY22E	FY23E	FY24E
Net Sales	136,405	175,973	213,476	301,234
Net Profit	6,726	8,258	11,604	19,028
EPS, CNY	0.73	0.89	1.26	2.06
P/E, x	18.4	15.9	11.3	6.9
BVPS, CNY	6.73	7.26	8.06	9.48
P/BV, x	2.0	2.0	1.8	1.5
DPS (CNY)	0.37	0.45	0.63	1.05
Div. Yield (%)	2.8%	3.2%	4.4%	7.4%

Source: Company reports, Phillip Securities Est.

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Due to the pandemic, Sales Plummet in April but rebound in May

Due to the outbreak of the pandemic in Shanghai, Jiangsu Province and Jilin Province, the supply chain and logistics were blocked in many aspects. Great Wall Motor's sales volume in April plummeted to 53,777 units, down 41.4% yoy and down 46.7% mom, respectively. In May, as the supply chain resumed work and production successively, the company's sales rebounded to 80,062 units as scheduled, a significant increase of 49% month-on-month, and the year-on-year decline narrowed to -7.94%. The cumulative sales volume in the first five months of this year was 417,300 units, a year-on-year decrease of -19.4%, a narrow of 2.3 ppts from the previous four months. Among the sub-brands, the sales volume of Haval/GWM Pickup/ORa/Wey/Tank in April were 29.1/13.2/3.1/2.3/6 thousand units, respectively, down 47.1%/34.6%/58.7%/36.1%, and up 10.3% yoy, respectively. With the gradual improvement of the pandemic situation, the automotive industry, which is the key concern for the resumption of work and production, will gradually fix the supply chain and facilitate the stability and recovery of sales volume. The sales volume of Haval/GWM Pickup/Ora/Wey/Tank in May were 41.7/17/10.8/2.5/8 thousand units, yoy -22.5%/-16.7%/+199.4%/-16.3%/+31.7%, respectively. Haval and ORa have improved significantly mom.

The share of high-value models of the Company continued to rise. In April/May, the Company's sales share of models of over RMB150 thousand yuan reached 18.7%/14.9%. The sales share of models based on the three major technology brands, namely, Lemon, Tank and Coffee Intelligence, have reached 66.2%/64.1%. The share of intelligent models has been up to 89%/82.9%.

Clear GIFT Strategy + Enhanced New Product Cycle + Expectation for Policy Facilitation Promote a Virtuous Cycle of Valuation and Results

Great Wall Motor previously announced the 2025 Strategy - "Green Intelligent Future Technology": The Company plans to achieve the global annual sales target of 4,000 thousand vehicles by 2025, 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. We believe that the core technologies including cobalt-free batteries, hybrid DHT technology, 3.0T+9AT/9HATP2 powertrain, wire-control chassis and smart cockpit, and the Coffee Intelligence platform, is expected to continuously strengthen the Company's strength in new energy vehicles and intelligence in the future, and open up the future valuation space.

In 2022, Great Wall Motor will still usher in an enhanced new product cycle. Wey, Tank and Ora brands will launch multiple new models. Meanwhile, an abundant order in hand is also a strong guarantee for the rapid growth of sales volume and operating revenue after the pandemic.

In addition, in order to stimulate the economy and maintain the continuity of the support policies for the NEV industry, a package of policies to encourage automobile consumption, including the halving of the purchase tax of fuel vehicles and the sending of new energy vehicles to the countryside, has been implemented intensively from the central to local governments. More than 90% of the car purchase demand was met, which exceeded expectations. With the help of policies, this round of auto industry recovery will accelerate. Great Wall Motor's 2.0L and below fuel vehicle sales accounted for 87%, and the ORa cat and its GT version have also been selected for the list of going to the countryside and will benefit first.

Investment Thesis

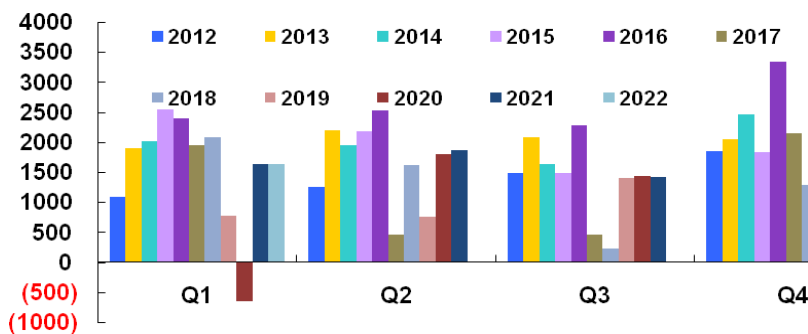
We expect that negative factors such as production suspension and delay caused by the pandemic are expected to improve or eliminate in H2 2022. In view of the repeated occurrence of the pandemic, the Company's net profit in 2022 may be lower than the forecast. It will take some time to digest the adjusted net profit under the impact of the pandemic and the rising raw material prices. We think that the recovery in capacity utilisation rate is expected to bring resilience to the revenue and net profit from 2023. In the longer term, benefiting from the new technology platform and the enhanced model cycle, Great Wall Motor's long-term layout of the new product system will strengthen barriers, accelerate the share increase, and bring positive returns for a long time in the future.

Considering revised financial forecast, we raised our target price to HK\$24.7, equivalent to 24/17/10.4 x P/E in 2022/2023/2024. We gave the rating of "Buy". (Closing price as at 15 June)

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

	FY20	FY21	FY22F	FY23F	FY24F
Valuation Ratios					
P/E (X), adj.	23.7	18.4	15.9	11.3	6.9
P/B (X)	2.2	2.0	2.0	1.8	1.5
Dividend Yield (%)	2.0%	2.8%	3.2%	4.4%	7.4%
Dividend payout ratio (%)	47.8%	50.8%	50.3%	50.1%	51.0%
Per share data (RMB)					
EPS, reported	0.59	0.73	0.89	1.26	2.06
EPS, adj.	0.58	0.73	0.89	1.26	2.06
DPS	0.28	0.37	0.45	0.63	1.05
BVPS	6.25	6.73	7.26	8.06	9.48
Growth & Margins (%)					
Growth					
Revenue	7.4%	32.0%	29.0%	21.3%	41.1%
EBIT	39.5%	6.2%	25.4%	50.7%	66.0%
Net Income, adj.	19.3%	25.4%	22.8%	40.5%	64.0%
Margins					
Gross margin	17.2%	16.2%	16.3%	17.2%	18.1%
EBIT margin	6.4%	5.2%	5.0%	6.2%	7.3%
Net Profit Margin	5.2%	4.9%	4.7%	5.4%	6.3%
Key Ratios					
ROE (%)	9.60%	11.26%	12.78%	16.40%	23.50%
ROA (%)	4.02%	4.08%	4.54%	5.79%	8.39%
Income Statement (RMB mn)					
Revenue	103,308	136,405	175,973	213,476	301,234
Gross profit	17,777	22,037	28,719	36,718	54,493
Operating profit	4,781	4,877	6,674	10,899	18,930
EBIT	6,624	7,034	8,820	13,296	22,066
Profit before tax	6,227	7,482	9,330	13,899	22,790
Tax	(865)	(757)	(1,073)	(2,293)	(3,760)
Profit for the period	5,362	6,725	8,257	11,605	19,030
Minority interests	0	(1)	(1)	1	2
Total capital share	9,176	9,236	9,236	9,236	9,236
Net profit	5,362	6,726	8,258	11,604	19,028

Source: PSR

(Closing price as at 15 June)

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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