

# Great Wall Motor (2333 HK)

## 1Q22 under pressure; less bumpy road ahead

We expect Great Wall Motor's 1Q22E profitability to be under pressure amid lower sales volume, forex loss and raw-material price hikes. However, we project its net profit to accelerate likely from 2Q22E with the help of new models and strong order backlog. We maintain our BUY rating but cut target price by 50%.

■ **1Q22 preview.** We project 1Q22E net profit to decline 38% YoY to about RMB 1.0bn, assuming a forex loss of about RMB 0.6bn from its Russia business. We expect 1Q22E net profit to be flat YoY excluding the forex loss, as better product mix could offset lower sales volume. Management expects raw-material costs in 1Q22 to be at a similar level of that in 4Q21 during our non-deal roadshow (NDR). Management also confirmed that the *Ora Haomao* is profitable at net level without the new-energy vehicle (NEV) credit income.

■ **We cut full-year earnings but still believe strong model cycle to continue.** We cut our sales-volume forecasts to 1.46mn/1.90mn units from 1.70mn/2.07mn units for FY22/23E, respectively. Accordingly, we cut our net profit estimates to RMB 8.2bn/11.2bn from RMB 12.6bn/15.5bn for FY22/23E, respectively.

We still expect Great Wall to benefit from its new models (7 in FY21 and as many as 10 in FY22E), especially with its current strong order backlog, which could lead to net profit acceleration from 2Q22E. We are of the view that its FY22E net profit target of RMB 8.2bn for the share option scheme is still feasible, especially as the Chairman said FY22E R&D growth may slow down. Total wage expenses (including expensed share-based payment) rose 49% YoY to RMB 11.7bn in FY21.

■ **Is prioritizing profitability a strategy shift or Hobson's choice?** The company seems to prioritize profitability from market share now, based on what the Chairman said during the earnings call. We are of the view that Great Wall is probably still attempting to find the most comfortable spot for itself, as the success of the *H6* and *Tank 300* are two different lessons for Great Wall. However, going upmarket is a path without any doubt.

■ **Valuation/Key risks.** We maintain our BUY rating but cut target price from HK\$ 40.00 to HK\$ 20.00, based on 18x (previously 20x) our revised FY22E P/E, to reflect rising risk premium amid macro uncertainty. Key risks to our rating and target price include lower sales volume and margins, slower tech transformation than our expectation, as well as a sector de-rating.

### Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	103,308	136,405	188,618	220,449	254,700
YoY growth (%)	7.4	32.0	38.3	16.9	15.5
Net income (RMB mn)	5,362	6,726	8,235	11,151	13,751
EPS (RMB)	0.58	0.73	0.89	1.20	1.47
YoY growth (%)	19.2	25.4	22.4	35.4	23.3
P/E (x)	18.0	14.0	11.5	8.5	7.0
P/B (x)	1.7	1.5	1.3	1.2	1.1
Yield (%)	3.7	1.3	2.5	3.3	4.1
ROE (%)	9.6	11.3	12.4	14.7	16.0
Net gearing (%)	12	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimate

### BUY (Maintain)

Target Price	HK\$ 20.00
(Previous TP)	HK\$ 40.00)
Up/Downside	+59.5%
Current Price	HK\$ 12.54

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#### Stock Data

Mkt Cap (HK\$ mn)	115,818
Avg 3 mths t/o (HK\$ mn)	587
52w High/Low (HK\$)	39.00/10.42
Total Issued Shares (mn)	9,236
Source: Bloomberg	

#### Shareholding Structure

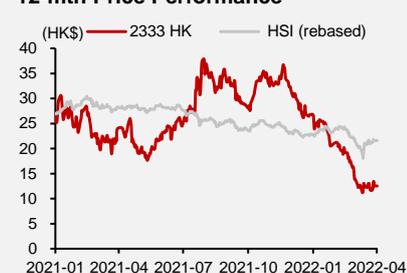
Wei Jianjun	56.4%
Others	43.6%
Source: HKEx	

#### Share Performance

	Absolute	Relative
1-mth	-9.5%	-10.1%
3-mth	-52.3%	-47.0%
6-mth	-54.5%	-46.4%

Source: Bloomberg

#### 12-mth Price Performance



Source: Bloomberg

#### Auditor: Deloitte

#### Related Reports

"Great Wall Motor – Best positioned in tech transformation" – 13 Jan 2022

**Figure 1: Quarterly results**

RMB mn	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	YoY	QoQ
Sales volume (units)	150,332	249,445	285,593	430,908	325,798	288,591	265,834	396,948	-7.9%	49.3%
ASP (RMB)	82,363	94,399	91,789	95,529	95,510	106,765	108,597	114,895	20.3%	5.8%
Revenue	12,416	23,513	26,214	41,164	31,117	30,811	28,869	45,607	10.8%	58.0%
Gross profit	1,190	4,098	4,972	7,517	4,707	5,357	4,995	6,979	-7.2%	39.7%
R&D expenses	(611)	(609)	(675)	(1,172)	(908)	(950)	(999)	(1,633)	39.3%	63.5%
SG&A expenses	(1,488)	(1,751)	(2,456)	(4,029)	(2,715)	(2,928)	(3,535)	(4,547)	12.8%	28.6%
Operating profit	(829)	1,989	1,717	2,874	1,864	1,995	1,420	1,090	-62.1%	-23.2%
Net profit	(650)	1,796	1,441	2,775	1,639	1,889	1,416	1,780	-35.9%	25.7%
Gross margin	9.6%	17.4%	19.0%	18.3%	15.1%	17.4%	17.3%	15.3%	-3.0 ppt	-2.0 ppt
Operating margin	-6.7%	8.5%	6.6%	7.0%	6.0%	6.5%	4.9%	2.4%	-4.6 ppt	-2.5 ppt
Net margin	-5.2%	7.6%	5.5%	6.7%	5.3%	6.1%	4.9%	3.9%	-2.8 ppt	-1.0 ppt

Source: Company data, CMBIGM

**Figure 2: Earnings revision**

RMB mn	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	188,618	220,449	254,700	211,884	257,873	N/A	-11.0%	-14.5%	N/A
Gross Profit	31,407	37,045	42,648	37,983	46,712	N/A	-17.3%	-20.7%	N/A
Operating Profit	8,821	12,223	15,248	14,466	17,778	N/A	-39.0%	-31.2%	N/A
Net profit	8,235	11,151	13,751	12,753	15,537	N/A	-35.4%	-28.2%	N/A
Gross Margin	16.7%	16.8%	16.7%	17.9%	18.1%	N/A	-1.3 ppt	-1.3 ppt	N/A
Operating Margin	4.7%	5.5%	6.0%	6.8%	6.9%	N/A	-2.2 ppt	-1.3 ppt	N/A
Net Margin	4.4%	5.1%	5.4%	6.0%	6.0%	N/A	-1.7 ppt	-1.0 ppt	N/A

Source: CMBIGM estimates

**Figure 3: CMBIGM estimates vs consensus**

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	188,618	220,449	254,700	183,380	225,473	N/A	2.9%	-2.2%	N/A
Gross Profit	31,407	37,045	42,648	33,900	42,799	N/A	-7.4%	-13.4%	N/A
Operating Profit	8,821	12,223	15,248	12,207	17,077	N/A	-27.7%	-28.4%	N/A
Net profit	8,235	11,151	13,751	11,091	14,693	N/A	-25.7%	-24.1%	N/A
Gross Margin	16.7%	16.8%	16.7%	18.5%	19.0%	N/A	-1.8 ppt	-2.2 ppt	N/A
Operating Margin	4.7%	5.5%	6.0%	6.7%	7.6%	N/A	-2.0 ppt	-2.0 ppt	N/A
Net Margin	4.4%	5.1%	5.4%	6.0%	6.5%	N/A	-1.7 ppt	-1.5 ppt	N/A

Source: Bloomberg, CMBIGM estimates

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Revenue</b>	<b>103,308</b>	<b>136,405</b>	<b>188,618</b>	<b>220,449</b>	<b>254,700</b>
Cost of sales	(85,531)	(114,367)	(157,212)	(183,404)	(212,052)
<b>Gross profit</b>	<b>17,777</b>	<b>22,037</b>	<b>31,407</b>	<b>37,045</b>	<b>42,648</b>
Selling exp.	(4,103)	(5,192)	(6,509)	(7,694)	(7,994)
Admin exp. (ex. R&D)	(2,553)	(4,043)	(5,153)	(5,810)	(6,480)
R&D exp.	(3,067)	(4,490)	(6,428)	(8,068)	(9,425)
Others	(2,301)	(1,944)	(4,496)	(3,250)	(3,503)
<b>Operating profit</b>	<b>5,752</b>	<b>6,369</b>	<b>8,821</b>	<b>12,223</b>	<b>15,248</b>
Non-operating income	494	1,161	700	800	800
Non-operating exp.	(18)	(47)	(50)	(50)	(50)
<b>Pre-tax profit</b>	<b>6,227</b>	<b>7,482</b>	<b>9,471</b>	<b>12,973</b>	<b>15,998</b>
Tax	(865)	(757)	(1,231)	(1,816)	(2,240)
Minority interests	-	1	(4)	(6)	(7)
<b>Net profit</b>	<b>5,362</b>	<b>6,726</b>	<b>8,235</b>	<b>11,151</b>	<b>13,751</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Profit before taxation</b>	<b>6,227</b>	<b>7,482</b>	<b>9,471</b>	<b>12,973</b>	<b>15,998</b>
Depreciation/amortization	4,430	5,083	6,011	7,227	8,835
Change in working capital	(4,138)	24,154	(11,198)	6,406	4,947
Others	(1,338)	(1,403)	8,906	(1,464)	(1,369)
<b>Net cash from operating</b>	<b>5,181</b>	<b>35,316</b>	<b>13,191</b>	<b>25,142</b>	<b>28,410</b>
Capex	(8,062)	(13,091)	(9,745)	(11,941)	(12,464)
Others	(3,527)	1,916	1,371	2,172	2,386
<b>Net cash from investing</b>	<b>(11,588)</b>	<b>(11,175)</b>	<b>(8,375)</b>	<b>(9,769)</b>	<b>(10,079)</b>
Net borrowings	13,817	(92)	(6,521)	(1,350)	(1,400)
Dividend paid	(2,538)	(5,878)	(4,125)	(3,974)	(5,019)
Others	89	(3,662)	289	500	950
<b>Net cash from financing</b>	<b>11,368</b>	<b>(9,632)</b>	<b>(10,357)</b>	<b>(4,824)</b>	<b>(5,469)</b>
<b>Net change in cash</b>	<b>4,960</b>	<b>14,509</b>	<b>(5,541)</b>	<b>10,550</b>	<b>12,863</b>
Cash at beginning of the year	8,777	13,591	27,908	22,367	32,916
FX effect	(146)	(192)	-	-	-
<b>Cash at the end of the year</b>	<b>13,591</b>	<b>27,908</b>	<b>22,367</b>	<b>32,916</b>	<b>45,779</b>

### Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Current assets</b>	<b>99,399</b>	<b>108,366</b>	<b>129,060</b>	<b>149,784</b>	<b>174,440</b>
Cash & equivalents	14,588	33,048	27,507	38,056	50,919
Account receivables	58,448	41,497	64,595	72,476	83,737
Inventories	7,498	13,966	17,229	17,587	17,429
Other current assets	18,865	19,854	19,729	21,664	22,355
<b>Non-current assets</b>	<b>54,613</b>	<b>67,042</b>	<b>70,250</b>	<b>75,466</b>	<b>79,533</b>
PP&E	28,609	27,441	27,134	25,827	24,279
Intangibles	5,543	7,091	8,724	10,812	13,112
Equity investments	8,415	9,524	11,365	12,590	14,057
Other non-current assets	12,045	22,986	23,026	26,237	28,085
<b>Total assets</b>	<b>154,011</b>	<b>175,408</b>	<b>199,309</b>	<b>225,250</b>	<b>253,973</b>
<b>Current liabilities</b>	<b>81,166</b>	<b>95,597</b>	<b>111,525</b>	<b>129,616</b>	<b>149,366</b>
Bank borrowings	10,633	8,721	3,000	3,000	3,000
Payables	59,275	74,793	90,451	105,520	122,002
Contract liabilities	8,028	7,388	12,402	14,495	16,747
Other current liabilities	3,230	4,695	5,672	6,601	7,616
<b>Non-current liabilities</b>	<b>15,504</b>	<b>17,683</b>	<b>16,845</b>	<b>15,186</b>	<b>13,549</b>
Bank borrowings	10,777	8,917	8,417	7,417	6,417
Deferred income	3,462	4,113	4,082	4,055	4,031
Other non-current liabilities	1,265	4,652	4,345	3,714	3,100
<b>Total liabilities</b>	<b>96,670</b>	<b>113,280</b>	<b>128,369</b>	<b>144,802</b>	<b>162,914</b>
Share capital	9,176	9,236	9,282	9,340	9,458
Reserves	48,166	52,553	61,349	70,865	81,420
Minority interests	-	4	8	14	21
<b>Shareholders' equity</b>	<b>57,342</b>	<b>62,128</b>	<b>70,940</b>	<b>80,448</b>	<b>91,059</b>
<b>Total equity and liabilities</b>	<b>154,011</b>	<b>175,408</b>	<b>199,309</b>	<b>225,250</b>	<b>253,973</b>

### Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Sales mix (%)</b>					
Sales of vehicles	89.4	88.9	91.1	91.7	92.3
Sales of parts	5.0	5.0	3.9	3.5	3.2
Sales of moulds	1.2	1.6	1.3	1.4	1.3
Others	4.4	4.4	3.7	3.4	3.2
<b>Growth (%)</b>					
Revenue	7.4	32.0	38.3	16.9	15.5
Gross profit	7.6	24.0	42.5	18.0	15.1
Operating profit	20.4	10.7	38.5	38.6	24.7
Net profit	19.2	25.4	22.4	35.4	23.3
<b>Profit &amp; loss ratio (%)</b>					
Gross margin	17.2	16.2	16.7	16.8	16.7
Operating margin	5.6	4.7	4.7	5.5	6.0
Net profit margin	5.2	4.9	4.4	5.1	5.4
<b>Balance sheet ratio</b>					
Net cash (debt)/total equity (x)	(0.1)	0.2	0.2	0.3	0.5
Current ratio (x)	1.2	1.1	1.2	1.2	1.2
Receivable turnover days	207	111	125	120	120
Inventory turnover days	32	45	40	35	30
Payable turnover days	253	239	210	210	210
<b>Profitability (%)</b>					
ROE	9.6	11.3	12.4	14.7	16.0
ROA	4.0	4.1	4.4	5.3	5.7
<b>Per share data (RMB)</b>					
EPS	0.58	0.73	0.89	1.20	1.47
DPS	0.28	0.30	0.40	0.54	0.66

Source: Company data, CMBIGM estimates

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