

Great Wall Motor (2333 HK)

1Q22 earnings beat on vehicle upscaling

Great Wall Motor's 1Q22 earnings beat our prior estimates, especially on revenue and gross margin. We are of the view that such earnings beat ultimately came from upscaling models, which could continue to make Great Wall's earnings resilient in the following quarters amid multiple industry-wide headwinds. On the other hand, the lockdowns have dented both supply and demand in 2Q22. We think our FY22E net profit forecast of RMB 8.2bn is still achievable but largely depends on the recovery pace in 2H22. We maintain our BUY rating and target price of HK\$ 20.00.

- 1Q22 revenue and gross margin beat.** Great Wall's 1Q22 revenue was 7% higher than our estimates, with the highest quarterly average selling price in history. Its gross margin of 17.2% was also 0.9 ppt wider than our forecast, partially reflecting improved product mix despite lower capacity utilization rate and higher raw-material prices. Net profit of RMB 1.6bn (or RMB 1.3bn excluding extraordinary items) beat our estimates of RMB 1.0bn by 63%, with higher government grants and lower forex loss.
- New vehicles contribute to earnings resilience.** We are of the view that the earnings beat ultimately came from upscaling models, such as the *Tank 300*, *Dagou* and *Haomao*, despite noises from government grants and forex loss. In our view, Great Wall's 1Q22 earnings should be more resilient than most of its peers. Its upscaling models could continue to help it be better positioned than peers in the following quarters amid multiple industry-wide headwinds.
- 2Q22 outlook.** Despite 1Q22 earnings beat, 2Q22 could be more challenging than we had expected, as the lockdowns dented both supply and demand. Investors could be more optimistic if Great Wall's 2Q22 earnings remain resilient. We maintain our full-year FY22E net profit forecast of RMB 8.2bn, which could largely depend on the recovery pace in 2H22. We think that such profitability is still achievable if Great Wall could deliver all-time high sales volume in 2H22.
- Valuation/Key risks.** We keep our FY22-24E earnings forecasts unchanged and therefore, we maintain our BUY rating and target price of HK\$ 20.00, based on 18x our FY22E P/E. 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)	16.0	12.4	11.4	8.5	7.0
P/B (x)	1.7	1.4	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**
 Up/Downside **+78.9%**
 Current Price **HK\$ 11.18**

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Stock Data

Mkt Cap (HK\$ mn)	103,255
Avg 3 mths t/o (HK\$ mn)	572
52w High/Low (HK\$)	39.00/10.32
Total Issued Shares (mn)	9,236

Source: Bloomberg

Shareholding Structure

Wei Jianjun	56.4%
Others	43.6%

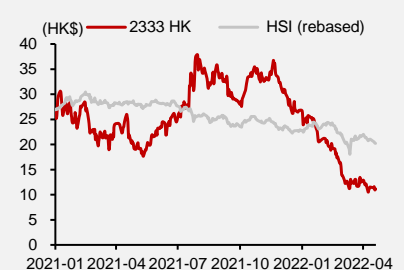
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-13.6%	-7.6%
3-mth	-55.2%	-37.9%
6-mth	-68.5%	-47.4%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Deloitte

Related Reports

"Great Wall Motor – 1Q22 under pressure; less bumpy road ahead" – 4 Apr 2022

Figure 1: Quarterly results

RMB mn	1Q21	2Q21	3Q21	4Q21	1Q22	YoY	QoQ
Sales volume (units)	325,798	288,591	265,834	396,948	283,500	-13.0%	-28.6%
ASP (RMB)	95,510	106,765	108,597	114,895	118,587	24.2%	3.2%
Revenue	31,117	30,811	28,869	45,607	33,619	8.0%	-26.3%
Gross profit	4,707	5,357	4,995	6,979	5,776	22.7%	-17.2%
R&D expenses	(908)	(950)	(999)	(1,633)	(1,324)	45.8%	-19.0%
SG&A expenses	(2,715)	(2,928)	(3,535)	(4,547)	(3,553)	30.8%	-21.9%
Operating profit	1,864	1,995	1,420	1,090	1,341	-28.1%	23.0%
Net profit	1,639	1,889	1,416	1,780	1,634	-0.3%	-8.2%
Gross margin	15.1%	17.4%	17.3%	15.3%	17.2%	2.1 ppt	1.9 ppt
Operating margin	6.0%	6.5%	4.9%	2.4%	4.0%	-2.0 ppt	1.6 ppt
Net margin	5.3%	6.1%	4.9%	3.9%	4.9%	-0.4 ppt	1.0 ppt

Source: Company data, CMBIGM

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	103,308	136,405	188,618	220,449	254,700
Cost of sales	(85,531)	(114,367)	(157,212)	(183,404)	(212,052)
Gross profit	17,777	22,037	31,407	37,045	42,648
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)
Operating profit	5,752	6,369	8,821	12,223	15,248
Non-operating income	494	1,161	700	800	800
Non-operating exp.	(18)	(47)	(50)	(50)	(50)
Pre-tax profit	6,227	7,482	9,471	12,973	15,998
Tax	(865)	(757)	(1,231)	(1,816)	(2,240)
Minority interests	-	1	(4)	(6)	(7)
Net profit	5,362	6,726	8,235	11,151	13,751

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Profit before taxation	6,227	7,482	9,471	12,973	15,998
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)
Net cash from operating	5,181	35,316	13,191	25,142	28,410
Capex	(8,062)	(13,091)	(9,745)	(11,941)	(12,464)
Others	(3,527)	1,916	1,371	2,172	2,386
Net cash from investing	(11,588)	(11,175)	(8,375)	(9,769)	(10,079)
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
Net cash from financing	11,368	(9,632)	(10,357)	(4,824)	(5,469)
Net change in cash	4,960	14,509	(5,541)	10,550	12,863
Cash at beginning of the year	8,777	13,591	27,908	22,367	32,916
FX effect	(146)	(192)	-	-	-
Cash at the end of the year	13,591	27,908	22,367	32,916	45,779

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Current assets	99,399	108,366	129,060	149,784	174,440
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
Non-current assets	54,613	67,042	70,250	75,466	79,533
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
Total assets	154,011	175,408	199,309	225,250	253,973
Current liabilities	81,166	95,597	111,525	129,616	149,366
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
Non-current liabilities	15,504	17,683	16,845	15,186	13,549
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
Total liabilities	96,670	113,280	128,369	144,802	162,914
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
Shareholders' equity	57,342	62,128	70,940	80,448	91,059
Total equity and liabilities	154,011	175,408	199,309	225,250	253,973

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
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
Growth (%)					
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
Profit & loss ratio (%)					
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
Balance sheet ratio					
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
Profitability (%)					
ROE	9.6	11.3	12.4	14.7	16.0
ROA	4.0	4.1	4.4	5.3	5.7
Per share data (RMB)					
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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