

## Great Wall Motor

2333 HK

Target (HKD): 50.65 → 58.41

Upside: 15.1%

23 Oct price (HKD): 50.75

- 1 Buy (unchanged)
- 2 Outperform
- 3 Hold
- 4 Underperform
- 5 Sell

# Two growth drivers expected in 2014

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- We forecast 59% YoY net profit growth for 3Q13
- More scope for operating margin expansion
- Imminent H8 model launch could surprise positively; target price raised to HKD58.41, reaffirming Buy

### ■ What's new

We forecast Great Wall Motor (GWM) to deliver strong net profit growth for 3Q13 of 59% YoY (2.3% above the Bloomberg consensus) on 24 October, and see two potential upside surprises from its operating margin and its new H8 model launch.

### ■ What's the impact

**3Q13 earnings preview.** GWM announced recently that its SUV sales volumes for 3Q13 reached 60% of its total sales volume, vs. 51% for 1H13 and 49% for 3Q12. As its SUVs have a much higher blended ASP and gross margins than its non-SUV models, we forecast its net profit per car sold to reach CNY12,627 for 3Q13, 13% higher than 1H13's level. Thus, we forecast a 3Q13 net profit of CNY2.37bn. Further, GWM recently raised the manufacturer's suggested retail price (MSRP) for its new H8 SUV model by 5% due to strong demand. As such, we are increasing our blended ASP forecasts for 2013,

2014 and 2015 by 3.8%, 5.5% and 6.4%, respectively (to CNY74,364, CNY82,322 and CNY 86,271), and raising our gross margin forecasts for the corresponding years to 29.7%, 30.6% and 31.5% (revised up by 0.5pp, 0.9pp and 1.5pp).

**Expect more operating margin expansion.** We expect GWM to increase its number of domestic dealerships to 950 for 2013, 1,020 for 2014 and 1,070 for 2015. We forecast SSS volume growth from its domestic dealerships of above 24% YoY for 2013, 22.4% YoY for 2014 and 17% for 2015, and believe the expansion will enable GWM to negotiate more favourable terms with its dealerships. Thus, we now project its operating margin for 2013, 2014 and 2015 to expand to 18.4%, 19.5% and 20.2% (raised by 0.6pp, and 1.2pp and 2pp).

**Potential from H8 model launch.** Factoring in an ASP of CNY185,000 (7.5% lower than guidance) for its H8 model (scheduled for launch at end-2013), we forecast average monthly sales volume for the H8 of 3,750 units in 2014, as we expect its monthly sales volume to be at least in line with the monthly average sales volume per model we forecast for the China SUV segment of about 3,600-3,759 units over 2014-15. Though we forecast the H8 to account for only 5%/6% of GWM's sales volume for 2014/2015, 10% extra sales volume growth on top of our forecasts would lift our 2014E/2015E EPS by 1.4%/1.7%.

We raise our 2013E/2014E/2015E EPS by 8%/15%/20% and expect improving earnings quality with its FCF as a percentage of net profit reaching 50% in 2014E and 64% 2015E (vs. 37% and 58% before).

### ■ What we recommend

We reaffirm our Buy (1) rating, on the strong earnings profile we see for 2013-15 and supported by an increase in our six-month target price to HKD58.41 (from HKD50.65), based on an unchanged 10.2x PER (its past-seven-year average plus 0.5SD) on our 2014E EPS. Delays in new model launches would be the main risk.

### ■ How we differ

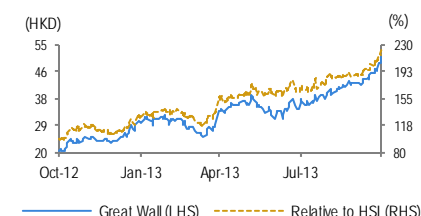
Our 2013-14E EPS are now the highest of the consensus, reflecting our greater confidence in GWM's new product mix and operating leverage.

### Forecast revisions (%)

Year to 31 Dec	13E	14E	15E
Revenue change	3.8	6.7	7.9
Net profit change	7.8	14.8	20.4
Core EPS (FD) change	7.8	14.8	20.4

Source: Daiwa forecasts

### Share price performance



12-month range	20.80-50.75
Market cap (USDbn)	19.92
3m avg daily turnover (USDm)	26.68
Shares outstanding (m)	3,042
Major shareholder	Baoding Innovation (56.0%)

### Financial summary (CNY)

Year to 31 Dec	13E	14E	15E
Revenue (m)	57,413	82,541	104,575
Operating profit (m)	10,580	16,106	21,190
Net profit (m)	9,021	13,545	17,704
Core EPS (fully-diluted)	2.965	4.453	5.819
EPS change (%)	58.5	50.2	30.7
Daiwa vs Cons. EPS (%)	11.6	35.6	52.4
PER (x)	13.5	9.0	6.9
Dividend yield (%)	2.3	3.4	4.4
DPS	0.903	1.356	1.773
PBR (x)	4.4	3.3	2.5
EV/EBITDA (x)	9.5	6.2	4.5
ROE (%)	36.6	41.7	40.8

Source: FactSet, Daiwa forecasts

## Financial summary

### ■ Key assumptions

Year to 31 Dec	2008	2009	2010	2011	2012	2013E	2014E	2015E
Sales volume (vehicles)	120,446	209,860	363,482	462,679	621,438	772,060	996,126	1,201,940
Export sales as % of total sales volume	43	16	14	17	15	11	8	7
Gross margin (%): PV total	18	17	25	25	27	30	31	32
Gross margin (%): Sedans	n.a.	4	22	24	23	24	24	24
Gross margin (%): SUVs	23	25	26	26	30	32	33	34
Gross margin (%): Pick-up trucks	19	23	26	26	26	26	26	26
Blended ASP (CNY/unit)	63,942	56,154	63,238	65,032	69,417	74,364	82,862	87,005
SUV sales volume	44,006	51,278	136,982	147,341	279,956	415,693	561,186	712,706
Sedan sales volume	9,754	76,811	122,843	187,504	199,256	219,898	246,286	275,840
Pick-up truck sales volume	63,235	75,341	98,643	121,673	136,694	134,290	136,976	139,715

### ■ Profit and loss (CNYm)

Year to 31 Dec	2008	2009	2010	2011	2012	2013E	2014E	2015E
SUVs	3,628	4,225	9,432	11,380	21,843	34,639	57,292	75,701
Sedans and pick-up trucks	3,815	7,123	11,159	16,330	18,494	19,853	21,667	24,165
Other Revenue	981	1,466	2,396	2,379	2,823	2,921	3,581	4,709
<b>Total Revenue</b>	<b>8,425</b>	<b>12,815</b>	<b>22,986</b>	<b>30,089</b>	<b>43,160</b>	<b>57,413</b>	<b>82,541</b>	<b>104,575</b>
Other income	(49)	(31)	1	(10)	36	221	273	312
COGS	(6,684)	(10,256)	(17,298)	(22,594)	(31,562)	(40,356)	(57,277)	(71,622)
SG&A	(1,021)	(1,332)	(1,944)	(2,477)	(3,400)	(4,459)	(6,129)	(7,892)
Other op.expenses	(217)	(426)	(881)	(1,052)	(1,595)	(2,239)	(3,302)	(4,183)
<b>Operating profit</b>	<b>454</b>	<b>770</b>	<b>2,864</b>	<b>3,956</b>	<b>6,640</b>	<b>10,580</b>	<b>16,106</b>	<b>21,190</b>
Net-interest inc./(exp.)	29	35	26	44	22	125	149	245
Assoc/forex/extraord./others	103	108	152	131	180	172	172	161
<b>Pre-tax profit</b>	<b>585</b>	<b>913</b>	<b>3,041</b>	<b>4,130</b>	<b>6,841</b>	<b>10,878</b>	<b>16,427</b>	<b>21,596</b>
Tax	(33)	140	(214)	(620)	(1,119)	(1,849)	(2,875)	(3,887)
Min. int./pref. div./others	(38)	(49)	(126)	(84)	(30)	(8)	(7)	(5)
<b>Net profit (reported)</b>	<b>514</b>	<b>1,003</b>	<b>2,701</b>	<b>3,426</b>	<b>5,692</b>	<b>9,021</b>	<b>13,545</b>	<b>17,704</b>
<b>Net profit (adjusted)</b>	<b>514</b>	<b>1,003</b>	<b>2,701</b>	<b>3,426</b>	<b>5,692</b>	<b>9,021</b>	<b>13,545</b>	<b>17,704</b>
EPS (reported)(CNY)	0.188	0.372	0.986	1.185	1.871	2.965	4.453	5.819
EPS (adjusted)(CNY)	0.188	0.372	0.986	1.185	1.871	2.965	4.453	5.819
EPS (adjusted fully-diluted)(CNY)	0.188	0.372	0.986	1.217	1.871	2.965	4.453	5.819
DPS (CNY)	0.030	0.100	0.200	0.300	0.570	0.903	1.356	1.773
EBIT	454	770	2,864	3,956	6,640	10,580	16,106	21,190
<b>EBITDA</b>	<b>685</b>	<b>1,149</b>	<b>3,388</b>	<b>4,630</b>	<b>7,497</b>	<b>11,760</b>	<b>17,596</b>	<b>22,970</b>

### ■ Cash flow (CNYm)

Year to 31 Dec	2008	2009	2010	2011	2012	2013E	2014E	2015E
Profit before tax	585	913	3,041	4,130	6,841	10,878	16,427	21,596
Depreciation and amortisation	231	379	525	674	858	1,180	1,490	1,780
Tax paid	0	0	0	0	0	0	0	0
Change in working capital	51	77	(143)	358	(2,222)	137	(3,786)	(3,320)
Other operational CF items	20	(3)	(301)	(770)	(1,163)	(2,042)	(3,091)	(4,198)
<b>Cash flow from operations</b>	<b>888</b>	<b>1,366</b>	<b>3,123</b>	<b>4,392</b>	<b>4,313</b>	<b>10,153</b>	<b>11,040</b>	<b>15,858</b>
Capex	(1,106)	(960)	(3,218)	(3,759)	(4,445)	(4,000)	(4,300)	(4,500)
Net (acquisitions)/disposals	260	1,866	1,760	1,795	5,432	0	0	0
Other investing CF items	(927)	(1,460)	(849)	(1,527)	24	127	151	246
<b>Cash flow from investing</b>	<b>(1,773)</b>	<b>(554)</b>	<b>(2,307)</b>	<b>(3,491)</b>	<b>1,012</b>	<b>(3,873)</b>	<b>(4,149)</b>	<b>(4,254)</b>
Change in debt	0	39	(76)	225	60	0	0	0
Net share issues/(repurchases)	0	0	0	3,894	0	0	0	0
Dividends paid	(249)	(195)	(287)	(663)	(1,036)	(2,748)	(4,126)	(5,393)
Other financing CF items	0	0	(849)	(173)	(129)	0	0	0
<b>Cash flow from financing</b>	<b>(249)</b>	<b>(156)</b>	<b>(1,212)</b>	<b>3,283</b>	<b>(1,104)</b>	<b>(2,748)</b>	<b>(4,126)</b>	<b>(5,393)</b>
Forex effect/others	0	0	0	0	0	0	0	0
<b>Change in cash</b>	<b>(1,134)</b>	<b>656</b>	<b>(397)</b>	<b>4,184</b>	<b>4,221</b>	<b>3,533</b>	<b>2,765</b>	<b>6,211</b>
Free cash flow	(218)	406	(95)	634	(132)	6,153	6,740	11,358

Source: FactSet, Daiwa forecasts

## Financial summary continued ...

### ■ Balance sheet (CNYm)

As at 31 Dec	2008	2009	2010	2011	2012	2013E	2014E	2015E
Cash & short-term investment	2,199	2,742	3,657	7,204	6,409	9,942	12,707	18,917
Inventory	876	1,590	2,104	2,777	2,695	3,146	4,523	5,730
Accounts receivable	1,210	3,386	8,053	9,382	15,482	15,635	22,175	27,910
Other current assets	797	553	1,013	1,479	1,279	1,279	1,279	1,279
<b>Total current assets</b>	<b>5,083</b>	<b>8,271</b>	<b>14,827</b>	<b>20,842</b>	<b>25,865</b>	<b>30,001</b>	<b>40,683</b>	<b>53,836</b>
Fixed assets	5,461	6,263	8,425	11,868	16,231	19,051	21,861	24,581
Goodwill & intangibles	2	2	2	2	0	0	0	0
Other non-current assets	270	528	444	422	473	473	473	473
<b>Total assets</b>	<b>10,816</b>	<b>15,063</b>	<b>23,698</b>	<b>33,135</b>	<b>42,569</b>	<b>49,526</b>	<b>63,017</b>	<b>78,890</b>
Short-term debt	0	76	26	26	52	52	52	52
Accounts payable	3,678	6,412	11,862	14,687	19,132	19,873	24,003	27,625
Other current liabilities	13	11	0	0	0	0	0	0
<b>Total current liabilities</b>	<b>3,691</b>	<b>6,499</b>	<b>11,888</b>	<b>14,713</b>	<b>19,184</b>	<b>19,925</b>	<b>24,055</b>	<b>27,677</b>
Long-term debt	0	0	0	0	0	0	0	0
Other non-current liabilities	108	726	1,410	1,400	1,742	1,677	1,612	1,547
<b>Total liabilities</b>	<b>3,799</b>	<b>7,225</b>	<b>13,298</b>	<b>16,113</b>	<b>20,926</b>	<b>21,601</b>	<b>25,667</b>	<b>29,224</b>
Share capital	1,095	1,095	1,095	1,095	1,095	1,095	1,096	1,096
Reserves/R.E./others	5,639	6,497	8,920	15,642	20,419	26,692	36,110	48,421
<b>Shareholders' equity</b>	<b>6,734</b>	<b>7,593</b>	<b>10,015</b>	<b>16,737</b>	<b>21,514</b>	<b>27,787</b>	<b>37,206</b>	<b>49,517</b>
Minority interests	283	245	385	284	129	137	144	149
<b>Total equity &amp; liabilities</b>	<b>10,816</b>	<b>15,063</b>	<b>23,698</b>	<b>33,135</b>	<b>42,569</b>	<b>49,526</b>	<b>63,017</b>	<b>78,890</b>
EV	119,240	118,696	117,960	114,389	115,083	111,558	108,800	102,594
<b>Net debt/(cash)</b>	<b>(2,199)</b>	<b>(2,666)</b>	<b>(3,631)</b>	<b>(7,178)</b>	<b>(6,357)</b>	<b>(9,890)</b>	<b>(12,655)</b>	<b>(18,866)</b>
<b>BVPS (CNY)</b>	<b>2.459</b>	<b>2.773</b>	<b>3.658</b>	<b>5.502</b>	<b>7.072</b>	<b>9.134</b>	<b>12.230</b>	<b>16.277</b>

### ■ Key ratios (%)

Year to 31 Dec	2008	2009	2010	2011	2012	2013E	2014E	2015E
Sales (YoY)	6.7	52.1	79.4	30.9	43.4	33.0	43.8	26.7
EBITDA (YoY)	(40.9)	67.9	194.8	36.6	61.9	56.9	49.6	30.5
Operating profit (YoY)	(54.2)	69.8	271.7	38.1	67.8	59.4	52.2	31.6
Net profit (YoY)	(45.6)	95.2	169.2	26.8	66.2	58.5	50.2	30.7
Core EPS (fully-diluted) (YoY)	(48.4)	97.9	165.2	23.4	53.7	58.5	50.2	30.7
Gross-profit margin	20.7	20.0	24.7	24.9	26.9	29.7	30.6	31.5
EBITDA margin	8.1	9.0	14.7	15.4	17.4	20.5	21.3	22.0
Operating-profit margin	5.4	6.0	12.5	13.1	15.4	18.4	19.5	20.3
Net profit margin	6.1	7.8	11.8	11.4	13.2	15.7	16.4	16.9
ROAE	7.8	14.0	30.7	25.6	29.8	36.6	41.7	40.8
ROAA	4.9	7.8	13.9	12.1	15.0	19.6	24.1	25.0
ROCE	6.5	10.3	31.2	28.8	34.3	42.6	49.3	48.6
ROIC	10.5	15.4	44.6	40.5	44.2	52.7	62.2	62.6
Net debt to equity	net cash	net cash	net cash	net cash	net cash	net cash	net cash	net cash
Effective tax rate	5.6	n.a.	7.0	15.0	16.4	17.0	17.5	18.0
Accounts receivable (days)	43.8	65.4	90.8	105.8	105.1	98.9	83.6	87.4
Current ratio (x)	1.4	1.3	1.2	1.4	1.3	1.5	1.7	1.9
Net interest cover (x)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Net dividend payout	16.0	26.9	20.3	25.3	30.5	30.5	30.5	30.5
Free cash flow yield	n.a.	0.3	n.a.	0.5	n.a.	5.1	5.6	9.4

Source: FactSet, Daiwa forecasts

### ■ Company profile

Great Wall Motor Company manufactures and sells pick-up trucks and SUVs in China under its Great Wall brand name. The three key product lines are: Hover SUV, Sedan Voleex, and Wingle Pickup.

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