

Great Wall Motor Co., Ltd.

Jan/Feb sales solid but not exciting

GWM reported monthly sales for February 2015 on 5 March. For Jan/Feb combined, GWM's unit sales were 140K units, up 16.8% y/y driven by strong SUV sales (+55% y/y) but offset by the soft performances for pickups (-15% y/y) and sedan sales (-60% y/y from high base). For February, GWM's sales were 52K units, up 3% y/y but down 41% m/m, negatively affected by the late Lunar New Year in 2015 (19 February 2015 vs. 31 January in 2014). We view this sets of result as not surprising, but we expect some investors will find it disappointing given the elevated expectations after GWM's strong performance in January (88K units, +27% y/y, +14% m/m) with both H6 and H2 sales at historical highs. Please see our report "Great Wall Motor Co., Ltd.: Jan sales likely preloaded for the Lunar New Year" for details).

GWM's average monthly sales volume for SUVs in 2M15 was 55.7K units, accounting for 80% of sales and increasing 55% y/y but down 9% m/m vs. Dec 2014, suggesting challenges in achieving sequential volume growth without new models even in the red-hot SUV segment (SUV sales grew 36% y/y in 2014 vs. 10% for passenger vehicles). The average sales for the H6 for 2M15 were 28K units, 9% lower than the run-rate of 31K in 4Q14 – a data point some might find disappointing but we would view the sequential weakness as due to seasonality. As such, we will closely monitor March sales to see whether the H6 sales are indeed peaking out at about the 30K level.

Sedan sales worsened: Average monthly sales for sedans in 2M15 were 5.5K units (-60% y/y and -20% m/m vs. Dec 2014). **Pickup sales also lacklustre:** The average monthly sales for pickups in 2M15 were 8.8K units (-15% y/y and -1% m/m vs. Dec 2014).

We remain cautious on GWM: We see 1) downside risk in margins because GWM's new SUVs (H2, Coupe C, H7 and H9) start to compete more directly against the SUVs made by multinational OEMs and 2) price cutting has started for H6, which does not bode well for H6's sales volume. We believe the next catalyst for GWM will be its full-year results briefing for 2014 (scheduled for March 23) although GWM pre-announced on 26 January. We will be looking for more colour on 1) GWM's gross margin trend by model and 2) an update on its new model pipeline, particularly for the H8.

2333.HK: Financial and Valuation Metrics EPS CNY

FY Dec	2012	2013	2014	2015	2016
EPS	1.87A	2.70A	2.65E	3.11E	3.22E
Previous EPS	1.87A	2.70A	2.65E	3.11E	3.22E
Consensus EPS	1.87A	2.70A	2.65A	3.59E	4.26E
P/E	20.3	14.0	14.3	12.2	11.8

Source: Barclays Research.

Consensus numbers are from Thomson Reuters

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Stock Rating	UNDERWEIGHT Unchanged
Industry View	NEUTRAL Unchanged
Price Target	HKD 37.00 Unchanged

Price (05-Mar-2015)	HKD 46.90
Potential	-21%
Upside/Downside	
Tickers	2333 HK / 2333.HK

Market Cap (USD mn)	21626
Shares Outstanding (mn)	3042.42
Free Float (%)	100.00
52 Wk Avg Daily Volume (mn)	9.5
52 Wk Avg Daily Value (USD mn)	0.00
Dividend Yield (%)	2.2
Return on Equity TTM (%)	26.79
Current BVPS (CNY)	10.21

Source: Thomson Reuters

Price Performance	Exchange-HKG
52 Week range	HKD 50.00-26.10



[Link to Barclays Live for interactive charting](#)

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Asia ex-Japan Autos & Auto Parts Industry View: NEUTRAL

Great Wall Motor Co., Ltd. (2333.HK)

Stock Rating: UNDERWEIGHT

Income statement (CNYmn)	2013A	2014E	2015E	2016E	CAGR
Revenue	56,784	62,599	78,905	83,335	13.6%
EBITDA (adj)	10,823	10,867	12,760	13,435	7.5%
EBIT (adj)	9,668	9,254	11,149	11,569	6.2%
Pre-tax income (adj)	9,920	9,650	11,400	11,820	6.0%
Net income (adj)	8,224	8,052	9,462	9,810	6.1%
EPS (adj) (CNY)	2.70	2.65	3.11	3.22	6.1%
Diluted shares (mn)	3,042.4	3,042.4	3,042.4	3,042.4	0.0%
DPS (CNY)	0.81	0.79	0.93	0.97	6.1%

Price (05-Mar-2015) HKD 46.90
 Price Target HKD 37.00

Why Underweight? We expect GWM's monthly sales and margins to peak in 2015 as: 1) GWM's highest-margin vehicle, the Haval H6, faces strong competition from comparable models such as the CS75 and Tiggo 5, in addition to cannibalization from GWM's own new models (e.g. the H2); and 2) GWM's new models have lower margins due to higher content levels.

Margin and return data	Average				
EBITDA (adj) margin (%)	19.1	17.4	16.2	16.1	17.2
EBIT (adj) margin (%)	17.0	14.8	14.1	13.9	15.0
Pre-tax (adj) margin (%)	17.5	15.4	14.4	14.2	15.4
Net (adj) margin (%)	14.5	12.9	12.0	11.8	12.8
ROA (%)	17.3	14.3	14.3	12.8	14.7
ROE (%)	33.2	26.1	25.6	22.5	26.9

Upside case HKD 49.33

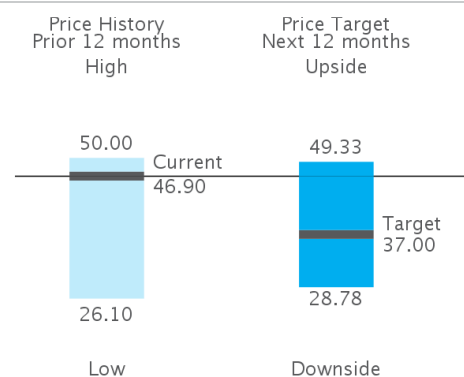
Our upside case is based on 12x 2015E earnings and incorporates PV market growth in China higher than our base case forecast and also stronger-than-expected market share for GWM in the SUV market.

Downside case HKD 28.78

Our downside case is based on 7x 2015E earnings and incorporates PV market growth in China lower than our base case forecast and also weaker-than-expected market share for GWM in the SUV market.

Balance sheet and cash flow (CNYmn)	CAGR				
Tangible fixed assets	18,646	23,093	26,240	27,931	14.4%
Intangible fixed assets	2,443	2,383	2,325	3,268	10.2%
Cash and equivalents	6,991	7,654	10,832	15,009	29.0%
Total assets	52,605	59,915	72,428	80,950	15.5%
Short and long-term debt	182	0	0	0	-100.0%
Pension liabilities	0	0	0	0	N/A
Other long-term liabilities	1,757	2,057	2,057	2,057	5.4%
Total liabilities	24,597	26,271	32,163	33,818	11.2%
Net debt/(funds)	-6,808	-7,654	-10,832	-15,009	N/A
Shareholders' equity	27,996	33,632	40,255	47,123	19.0%
Change in working capital	-1,226	-324	-1,261	-293	N/A
Cash flow from operations	9,039	9,261	10,717	11,621	8.7%
Capital expenditure	7,133	6,000	4,700	3,000	-25.1%
Free cash flow	759	2,950	4,844	8,117	120.3%

Upside/Downside scenarios



Valuation and leverage metrics	Average				
P/E (adj) (x)	14.0	14.3	12.2	11.8	13.1
EV/EBITDA (adj) (x)	10.0	9.9	8.2	7.5	8.9
EV/EBIT (adj) (x)	11.2	11.6	9.4	8.7	10.2
Equity FCF yield (%)	1.3	2.1	3.5	4.3	2.8
EV/sales (x)	1.9	1.7	1.3	1.2	1.5
P/BV (x)	4.1	3.4	2.9	2.4	3.2
Dividend yield (%)	2.1	2.1	2.5	2.6	2.3
Total debt/capital (%)	0.3	0.0	0.0	0.0	0.1
Net debt/EBITDA (adj) (x)	-0.6	-0.7	-0.8	-1.1	-0.8

Selected operating metrics	Average				
FCF/NI (x)	1.0	1.0	1.0	1.0	1.0
R&D/sales (%)	3.0	3.6	3.0	3.0	3.1
Capex/sales (%)	12.6	9.6	6.0	3.6	7.9
D&A/sales (%)	4.8	5.8	5.2	5.0	5.2

Source: Company data, Barclays Research

Note: FY End Dec

FIGURE 1

GWM – sales for February

	Pickups			SUVs				Sedans			GWM	
	Wingle	H5	H6	H2	H1	H9	M series	Total	C30	C50	Total	Total
Jan-15	10,557	2,353	36,117	15,207	7,542	3,066	5,741	70,026	4,609	2,856	7,504	88,087
Feb-15	6,964	1,421	20,186	10,561	4,604	1,819	2,690	41,281	2,294	1,248	3,542	51,788
y/y	-23%	-58%	11%	n.a	n.a	n.a	-69%	36%	-63%	-71%	-67%	3%
m/m	-34%	-40%	-44%	-31%	-39%	-41%	-53%	-41%	-50%	-56%	-53%	-41%
YTD 15	17,521	3,774	56,303	25,768	12,146	4,885	8,431	111,307	6,903	4,104	11,046	139,875
y/y	-15%	-53%	32%	n.a	n.a	n.a	-60%	55%	-56%	-62%	-60%	17%

Source: Company data, Barclays Research

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Primary Stocks (Ticker, Date, Price)

Great Wall Motor Co., Ltd. (2333.HK, 05-Mar-2015, HKD 46.90), Underweight/Neutral, J

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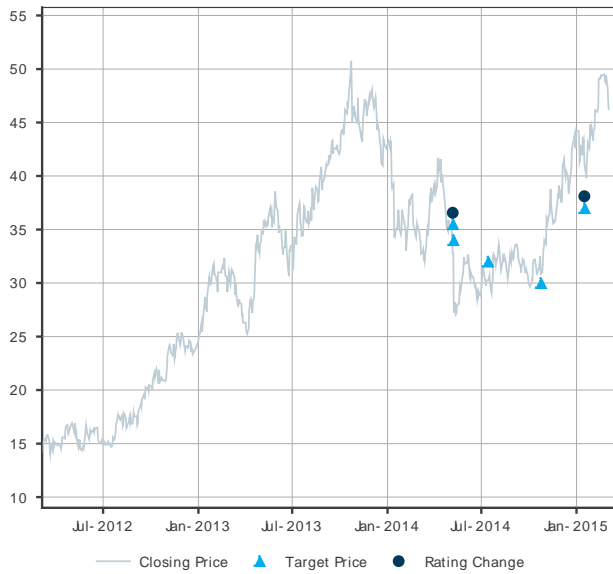
Great Wall Motor Co., Ltd. (2333 HK / 2333.HK)
HKD 46.90 (05-Mar-2015)

Stock Rating
UNDERWEIGHT

Industry View
NEUTRAL

Rating and Price Target Chart - HKD (as of 05-Mar-2015)

Currency=HKD



Date	Closing Price	Rating	Adjusted Price Target
16-Jan-2015	41.20	Underweight	37.00
24-Oct-2014	30.85		30.00
14-Jul-2014	30.25		32.00
08-May-2014	32.80		34.00
07-May-2014	32.80	Equal Weight	35.50

Source: Thomson Reuters, Barclays Research

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Source: IDC, Barclays Research

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Valuation Methodology: Our 12-month price target for GWM of HK\$37 is based on a P/E multiple of 9x applied to our 2015E EPS of RMB3.11. Our target multiple is just the average trading multiple of global auto OEMs (9x 2015E), which we believe is appropriate given our expectation that GWM's dominance in the sub-RMB150K SUV market while is likely to only last a few more years.

Risks which May Impede the Achievement of the Barclays Research Price Target: The key upside risks to our and price target, in our view, include the following: 1) higher-than-expected margins, especially for new SUVs; 2) higher-than-expected sales volumes of HAVAL SUVs; and 3) the removal of uncertainty on H8.

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