



HONG KONG

2333 HK Outperform

Price (at 05:21, 04 Mar 2015 GMT) HK\$46.95

Valuation HK\$ 60.00
- PER

12-month target HK\$ 60.00

Upside/Downside % +27.8

12-month TSR % +30.9

Volatility Index High

GICS sector Automobiles & Components

Market cap HK\$m 142,842

Market cap US\$m 18,204

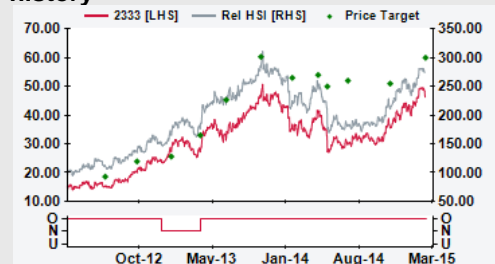
30-day avg turnover US\$m 45.7

Number shares on issue m 3,042

Investment fundamentals

Year end 31 Dec		2013A	2014E	2015E	2016E
Revenue	bn	56.8	62.6	86.0	108.0
EBIT	bn	9.6	9.2	14.1	17.7
EBIT growth	%	46.1	-3.8	52.8	25.7
Reported profit	bn	8.2	8.1	11.9	14.9
EPS rep	Rmb	2.70	2.65	3.91	4.89
EPS rep growth	%	44.5	-1.9	47.4	25.2
EPS adj growth	%	44.5	-1.9	47.4	25.2
PER rep	x	14.1	14.3	9.7	7.8
Total DPS	Rmb	0.82	0.80	1.17	1.47
Total div yield	%	2.2	2.1	3.1	3.9
ROA	%	20.1	16.3	20.1	19.9
ROE	%	33.2	26.2	31.4	31.5
EV/EBITDA	x	10.2	10.1	6.7	5.4
Net debt/equity	%	-24.3	-14.2	-17.8	-24.3
P/BV	x	4.1	3.4	2.8	2.2

2333 HK rel HSI performance, & rec history



Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, March 2015

(all figures in Rmb unless noted, TP in HKD)

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5 March 2015

Macquarie Capital Securities Limited

Great Wall Motor Company

Paving the road to long-term growth

Event

- We raise our volume estimates for Great Wall Motor (GWM) as new models are ramping up faster than we expected. We expect strong improvement in margins from FY15 on the back of the volume recovery, product mix upgrade and higher capacity utilisation.
- GWM should be the biggest beneficiary of surging SUV demand in China. A full SUV product line-up covering different market segments, upgrade of the distribution network and rising brand equity differentiate GWM from its competitors; thus we believe GWM should be able to enhance its leading position in the fast-growing SUV market.

Impact

- Several hit products driving volume growth.** GWM has a full line-up of SUV products following the launch of several new models, covering different market segments and a wide price range (Rmb70-270k). The three new models launched in 2H2014, i.e. the *H2* in July, *H1* and *H9* in Nov, have ramped up faster than we expected, which is the primary reason for us to raise our volume and earnings estimates. The launch of two new models this year (the *Coupe C* and the *H7*) should further expand its product offering, propel volume growth and upgrade the overall product mix. It also appears increasingly likely that the *H8* will debut by 2H.
- Margin should rebound strongly from this year.** The delay of the high-end SUV *H8* and the model changeover of sedan products had a negative impact on GWM's margins last year. With the ramp-up of new models, the capacity utilisation rate at the three production bases has improved substantially, which should boost margins. We expect operating profit margin to rise to 16.4% in FY15E from 14.8% in FY14E.
- Widening moat protecting the castle.** GWM is the only domestic carmaker that has established brand equity in our view. We recently visited a number of dealers in eastern China and felt that the Haval brand is increasingly recognized by consumers, especially in tier-1 cities like Beijing and Shanghai. The upgrade of the distribution network and customer service level, together with attractive products, are widening the moat that protects GWM's market share and profitability.

Earnings and target price revision

- We raise earnings estimates by 3-17% for FY14-17E, and lift our target price to HK\$60 from HK\$51, based on an unchanged 12x FY15 PER.

Price catalyst

- 12-month price target: HK\$60.00 based on a PER methodology.
- Catalyst: FY14 results, to be announced on 20 March evening

Action and recommendation

- We believe GWM is on the right track to pave the road to multi-year sales and profit growth. GWM remains one of our top picks in the sector together with Changan Auto.

Investment thesis and valuation

- **Raising volume estimates.** We raise our volume estimates by 5% for FY15E and 3% for FY16E, as new models launched by GWM in 2H2014 were ramping up faster than we had expected. **We expect GWM SUV sales to increase by 46% in FY15E and 26% in FY16E.** Despite the weaker performance for pick-up trucks and sedans, we expect GWM's total auto sales to grow 27% to 926k units in FY15E, 9% higher than the conservative target of 850k units set by company management.
- **Benefiting from China's love affair with SUVs.** We believe GWM should be the biggest beneficiary of surging demand for SUVs in China, as consumers are shifting quickly from sedans to SUVs, especially for second-time buyers. GWM now has a full SUV product line-up, covering different market segments and a wide price range (Rmb70-270k).
- **Steady upgrade in product mix.** Average selling prices for GWM products have increased substantially over the past several years through mix change and product upgrade. Sales of the high-end SUV *H9*, which is priced at Rmb229.8-272.8k, have beaten our expectations. It also highlights strong demand for 7-seat SUVs. The success of the *H9* has paved the road for the launch of high-end products going forward, including the *Coupe C*, the *H7* and the *H8*. As a result, we expect a further ASP increase in coming years (+9% in FY15E, +6% YoY in FY16E).
- **Brand and distribution differentiate GWM.** We believe GWM's efforts in building the Haval brand and upgrading its distribution network are under-appreciated as people focus more on the products and pricing. We recently visited a number of GWM dealers in Beijing, Shanghai and Fujian. Many of them have been upgraded to the new Haval standards, with bright, airy and well-decorated showroom, as well as improved service levels, which are comparable to top-tier international brands. In our view, GWM is the only domestic carmaker that has established brand equity, which is a long-term competitive advantage that differentiates GWM from other domestic brands.
- **Rising brand value.** Interbrand, a global leading brand consulting agency, released the list of "[2014 Most Valuable Chinese Brands](#)" in Nov 2014. GWM made the list for the fourth consecutive year with a brand value of Rmb3.06bn, the second highest among all the auto brands in China after Dongfeng. In the [China's Most Valuable Brands 2014](#) released by Hurun Research Institute, GWM was ranked at 55th place with a brand value of Rmb11.5bn, up 69% YoY.
- **Raising earnings estimates.** We raise our earnings estimates by 3% for FY14E, 17% for FY15E and 13% for FY16E, on the back of higher volume estimates and a better product mix. As shown in Fig 3, we revise up SUV sales but cut sedan sales as we believe GWM is likely to allocate more capacity to the high-margin SUVs.
- **Lifting target price to HK\$60.00.** We raise our target price to HK\$60.00, based on an unchanged target multiple of 12x, higher than the 10x we use for the sector on average. We believe GWM's clear strategy, superior product line-up, consistent execution and strong earnings growth deserve the valuation premium. GWM is also highlighted by Macquarie HK/China strategist Erwin Sanft as one of [the Wolf Pack stocks](#), which represent China's largest and highest quality private sector leaders.

Fig 1 Macquarie vs. consensus forecasts

Rmb m	Revenue	EBIT	Pre-tax profit	NPAT	EPS (Rmb)
2012A	43,160	6,558	6,841	5,692	1.87
2013A	56,784	9,584	9,920	8,224	2.70
2014 Macquarie - old	60,327	9,397	9,579	7,807	2.57
2014 Macquarie - new	62,556	9,217	9,645	8,063	2.65
2014 Consensus	60,783	9,764	9,827	8,050	2.67
2015 Macquarie - old	76,710	12,430	12,575	10,186	3.35
2015 Macquarie - new	85,972	14,080	14,283	11,884	3.91
2015 Consensus	79,781	12,894	13,117	10,848	3.56
2016 Macquarie - old	95,343	16,068	16,210	13,130	4.32
2016 Macquarie - new	107,953	17,698	17,924	14,877	4.89
2016 Consensus	94,072	15,307	15,544	12,823	4.18
2017 Macquarie - new	130,921	21,082	21,229	17,620	5.79

Source: Company data, Bloomberg, Macquarie Research, March 2015

Sales volume estimates

- **We project GWM to sell 931k vehicles in FY15E, +27% YoY.** This is 10% higher than company target of 850k units announced in late 2014. The new models, especially the high-end SUVs like the *H9*, *H8* and *H7*, should drive volume growth in China and overseas markets in 2016 and onwards.

Fig 2 Great Wall product line-up and volume estimates

Segment	Model	MSRP (Rmb '000)		Sales volume (units)									
		Low-end	High-end	2013	2014	2015E	2016E	2017E	1H14	2H14	1H15E	2H15E	
Pick-up	Deer	61.8	74.8	9,970									
	Wingle	67.8	125.8	116,836	118,286	105,057	100,000	100,000	65,121	53,165	54,057	51,000	
	Subtotal			126,806	118,286	105,057	100,000	100,000	65,121	53,165	54,057	51,000	
	YoY			-7%	-7%	-11%	-5%	0%	-4%	-10%	-17%	-4%	
SUV	H6	105.8	162.8	217,842	315,854	347,117	360,000	390,000	143,105	172,749	177,117	170,000	
	H2	98.8	120.8	0	49,351	173,707	180,000	200,000		49,351	83,207	90,500	
	Coupe C	150 (e)	200 (e)			26,000	75,000	96,000			2,000	24,000	
	H1	68.9	82.9		13,049	82,542	96,000	120,000		13,049	36,542	46,000	
	H5	102.8	125.8	61,875	45,945	25,853	24,000	24,000	28,593	17,352	13,853	12,000	
	M-series	63.9	71.9	137,665	90,117	53,241	48,000	48,000	53,575	36,542	29,241	24,000	
	H9	229.8	272.8	0	5,102	35,066	54,000	84,000		5,102	16,566	18,500	
	H7	150 (e)	200 (e)			5,500	48,000	72,000				5,500	
	H8	201.8	236.8			8,000	66,000	108,000					
	Subtotal			417,382	519,418	757,026	951,000	1,142,000	225,273	294,145	358,526	390,500	
YoY			183%	24%	46%	26%	20%	21%	27%	59%	33%		
Sedan	C30	64.5	83.5	126,036	52,463	43,609	36,000	36,000	33,788	18,675	21,609	22,000	
	C50	79.8	100.8	65,611	38,611	24,856	24,000	24,000	21,393	17,218	12,856	12,000	
	Others			18,360	1,967	249	0	0	1,815	152			
	Subtotal			210,007	93,041	68,714	60,000	60,000	56,996	36,045	34,465	34,000	
YoY			5%	-56%	-26%	-13%	0%	-50%	-63%	-40%	-6%		
Others			47	27	0			14	13				
Total			754,242	730,772	930,797	1,111,000	1,302,000	347,404	383,368	447,048	475,500		
YoY			54%	-3%	27%	19%	17%	-6%	-1%	29%	24%		

Source: Company data, Macquarie Research, March 2015

Fig 3 Changes in volume estimates (k units)

Segment	2015E			2016E			2017E		
	New	Old	chg	New	Old	chg	New	Old	chg
Pick-up	105	100	5	100	100	0	100	100	0
SUV	757	699	58	951	872	79	1,142	981	161
Sedan	69	84	-15	60	85	-25	60	85	-25
Total	931	883	48	1,111	1057	54	1,302	1,166	136
Chg			5%			5%			12%

Source: Company data, Macquarie Research, March 2015

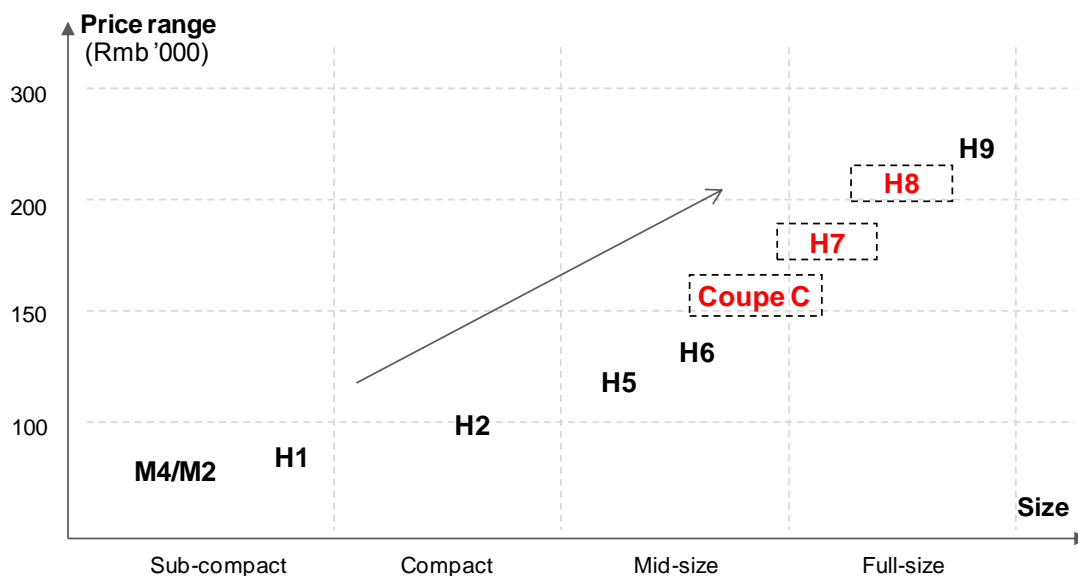
- **SUVs are the major growth drivers.** We expect GWM SUV sales to increase by 46% in FY15E to 757k units, and 26% in FY16E to 951k units. The new models in 2015 (the *H2*, *H1* and *H9*) and this year (the *Coupe C*, *H7* and *H8*) should be the major growth drivers while sales of the *H6* are likely to stabilise at high level.

⇒ **H6:** Sales are likely to stabilise at 30k units/month level, due to capacity constraints and potential cannibalisation from new models like the *Coupe C* and *H7* at the high end.

⇒ **H2:** Monthly sales should ramp up to 15k units/month. The *H2* mainly targets younger consumers (age below 30) with more stylish design compared with the *H6*; thus we see very limited overlap between the *H2* and *H6* in terms of market positioning and customer groups.

- ⇒ **H1:** Monthly sales should continue to ramp up as we see increasingly more first-time buyers shift from sedans to SUVs. The *H1* is very attractive in terms of form factor and price point.
- ⇒ **H5:** Sales should continue to drop for two reasons: 1) demand from overseas markets like Australia and Russia remains weak due to the decline in commodity prices and depreciation of local currencies; 2) off-road SUV buyers are shifting to the new off-road SUV *H9* for the latest design and features.
- ⇒ **H9:** This is one of the few 7-seat SUVs available at the moment and sales have ramped up faster than we expected despite the high prices (Rmb229.8-272.8k). We project the *H9* to sell 3-4k units/month in 2015-2016. It is also a major model for overseas markets like Australia and Russia.
- ⇒ **Coupe C:** This could be the high-end version of the *H6*, with more stylish design and better power performance (2.0L turbocharged engine vs. 1.5L turbocharged for the *H6*). It could be priced in the range of Rmb150-200k; thus it could attract potential *H6* buyers. The Coupe C will be launched in 1H2015, likely at the Shanghai Auto Show in late April in our view.
- ⇒ **H7:** This model will be launched in 2H this year to fill the price range of Rmb150-200k.
- ⇒ **M-series:** Sales should fall due to potential cannibalisation after the ramp-up of the *H1* in the similar price range.
- ⇒ **H8:** Increasingly more news reports on auto websites suggest that the *H8* should be launched soon. GWM and the dealers are ramping up sales of the *H9*; thus we believe the *H8* should start sales in 2H this year. We have 8k units of the *H8* in our volume estimates for this year, and 66k units in 2016 (more analysis on the *H8* later in this report).

Fig 4 GWM will have a full spectrum of SUV products, covering the price range of Rmb70-300k



Note: red text in box indicates new models to be launched

Source: Company data, Macquarie Research, March 2015

- **Pick-up truck sales stable.** We expect pick-up truck sales to stabilise at 8-10k units/month.
- **Sedan sales should continue to drop.** GWM started to implement its SUV Focus strategy from last year; thus the sedan segment is being de-emphasized now. As sedans share the same assembly lines with SUVs, we expect GWM to allocate more capacity to high-margin SUV products going forward, which should lead to a decline in sedan sales.

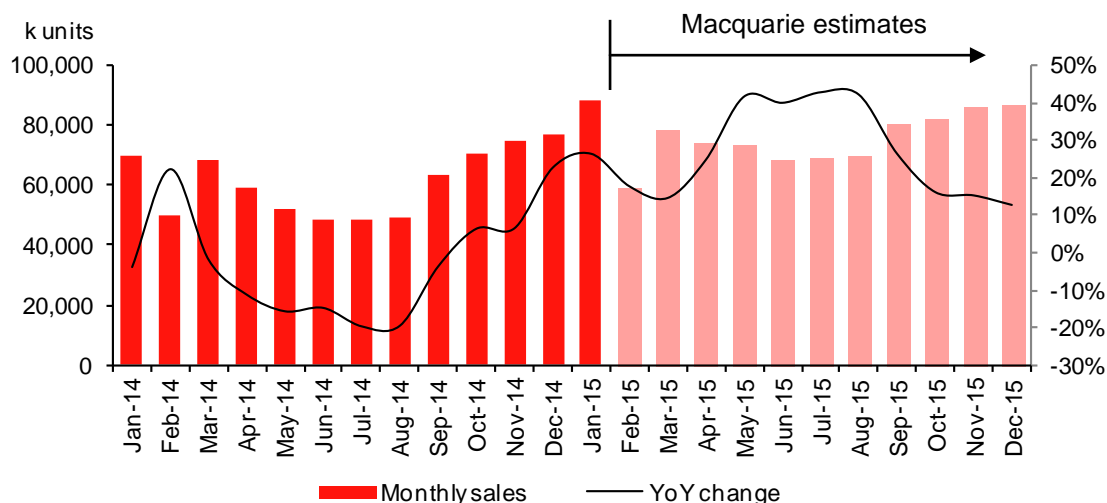
Fig 5 2015 monthly sales projection – strong growth in 2Q and 3Q 2015 on easy comps

Segment	Model	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15
Pick-up	Wingle	10,557	8,000	9,000	9,000	9,000	8,500	8,500	8,500	8,500	8,500	8,500	8,500
	YoY	-9%	-11%	-23%	-22%	-20%	-17%	-5%	10%	-12%	-6%	-3%	-4%
SUV	M-series	5,741	4,000	5,000	5,000	5,000	4,500	4,000	4,000	4,000	4,000	4,000	4,000
	H1	7,542	5,000	6,000	6,000	6,000	6,000	6,000	6,000	8,000	8,000	9,000	9,000
	H2	15,207	9,000	15,000	15,000	15,000	14,000	14,000	15,000	15,000	15,000	15,500	16,000
	H5	2,353	2,000	2,500	2,500	2,500	2,000	2,000	2,000	2,000	2,000	2,000	2,000
	H6	36,117	24,000	32,000	30,000	30,000	25,000	25,000	25,000	30,000	30,000	30,000	30,000
	Coupe C					500	1,500	3,000	3,000	4,000	4,000	5,000	5,000
	H7										500	2,000	3,000
	H8									500	1,500	2,500	3,500
	H9	3,066	2,000	3,000	3,000	3,000	2,500	2,500	2,500	3,500	3,000	3,500	3,500
	Subtotal		70,026	46,000	63,500	61,500	62,000	55,500	56,500	57,500	67,000	68,000	73,500
YoY		69%	52%	50%	56%	72%	55%	60%	50%	42%	29%	25%	24%
Sedan	C30	4,609	3,000	4,000	4,000	3,000	3,000	3,000	3,000	4,000	4,000	4,000	4,000
	C50	2,856	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
	Others	39	10	20	20	20	20	20	20	20	20	20	20
	Subtotal		7,504	5,010	6,020	6,020	5,020	5,020	5,020	5,020	6,020	6,020	6,020
YoY		-55%	-54%	-57%	-28%	8%	100%	29%	65%	-10%	-30%	-12%	-13%
Others		2	2	2	2	2	2	2	2	2	2	2	2
Total		88,089	59,012	78,522	76,522	76,022	69,022	70,022	71,022	81,522	82,522	88,022	90,522
YoY		27%	18%	15%	29%	47%	42%	45%	44%	28%	17%	18%	17%

Note: Sales for Feb-Dec 2015 are our estimates

Source: Company data, Macquarie Research, March 2015

Fig 6 Higher growth in 2015



Source: Company data, Macquarie Research, March 2015

Exports should become a major volume driver

- **New export strategy.** As part of the strategic transformation detailed in our recent report ([GWM - Transformative year behind them](#), 17 Nov 2014), GMW has re-developed its export strategy. The new strategy focuses more on controlling its brand, distribution and services, instead of selling vehicles to local distributors.
- **Building new distribution network in Australia.** Australia is GWM's second biggest export market after Russia. In the past, GWM shipped the vehicles to a local distributor on a wholesale basis but were not involved in retail sales or customer services. In 2014, GWM started to establish its own distribution network under the Haval brand, and a new website also came online (<http://www.haval.com.au/>). Interestingly is that the *H8* SUV is displayed on the homepage; thus we believe GWM management remains confident in its outlook despite the delay in China.
- **Building a new factory in Russia.** Russia is the biggest overseas market for GWM, and its pick-up trucks and SUVs are particularly popular there. In May 2014, GWM announced the investment in a new production base in Russia with total capacity of 150k units per year. The first factory should come on stream in 2016-2017 and drive sales in the Russian market substantially. We expect GWM to expand its distribution network and increase the brand marketing there before opening the new factory, which should boost its auto sales there in 2015-2016.
- **More opportunities than risks in Russia.** China and Russia are still expanding cooperation in many areas, especially in the oil and gas sector. We believe there are more opportunities than risks for GWM despite the political turmoil in Russia at the moment, as GWM products are very attractive for Russian consumers for their high performance/cost ratio.
- **Haval SUVs for exports.** Haval SUVs will be the major products for export. In addition to the strong demand in the domestic market, we believe exports will be another major driver for GWM's high growth in SUV sales. For example, we estimate that *H8* sales could grow to 108k units in 2017, from 66k units in 2016, partly driven by the growth in Australian and Russian markets.

Fig 7 Factory and capacity

Factory	Model	Capacity at year-end (k units)					
		2011	2012	2013	2014	2015E	2016E
Huabei factory (华北工厂)	Wingle (pick-up truck)	100	100	100	100	100	100
Baoding factory 2 (事业二部)	H5, Wingle	120	120	120	120	120	120
Baoding factory 3 (事业三部)	C30, M-series, H1	180	180	180	180	180	180
Tianjin factory 1 (天津一期)	H6		200	200	250	250	250
Tianjin factory 2 (天津二期)	H6, H2, C50			200	250	250	250
Xushui factory 1 (徐水一期)	H7, H8, H9, Coupe C				50	250	250
Xushui factory 2 (徐水二期)	H7, H8, H9, Coupe C					50	250
Total		400	600	800	950	1200	1400
Maximum output			720	960	1,140	1,440	1,680
Effective utilisation rate			98%	108%	84%	86%	83%

Note:

Source: Company data, Macquarie Research, March 2015

Capacity overview

- **Three production bases with annual capacity of 1.2m units.** GWM has three production bases now and total production capacity is expected to reach 1.2m units by the end of 2015 (Fig 7).
- **Capacity limits the potential of the H2 in the near term.** The two major SUVs (*H6* and *H2*) and a sedan (the *C50*) are assembled at the Tianjin production base, and the two factories there have a total designed capacity of 500k units per year.
 - ⇒ **Tianjin factory 1:** This factory is dedicated to the *H6* and monthly production volume is about 20k units. 25k units could be achieved through over time work.
 - ⇒ **Tianjin factory 2:** Total production capacity is about 20-25k units/month and it is shared by three models, i.e. the *H6*, *H2* and *C50*.

⇒ **Capacity allocation:** A total of 546k vehicles should be made there in 2015, including 345k units of the *H6*, 174k units of the *H2* and 25k units of the *C50*. We see higher demand for the SUVs, but the upside potential could be limited by capacity in the short term. We expect GWM to sacrifice sales of sedans and allocate the capacity to the high-margin SUVs. This is the main reason for us to revise down volume estimates of the *C50*.

- **High-end SUVs are made at Xushui production base.** The new high-end SUVs, like the *H9*, *Coupe C*, *H7* and the *H8*, will be assembled at the Xushui production base. Xushui factory 1 started production in Dec 2013. However, it was idle most of 2014 before the launch of the *H9* in Nov. The factory depreciation cost is about Rmb20m/month, booked in administrative expenses during the idle period, which has negatively impacted margins in FY14, especially in 1H.
- **Two new factories are under construction.** Two new factories in Xushui are under construction at the moment, for the production of several high-end SUVs.

When will the *H8* come?

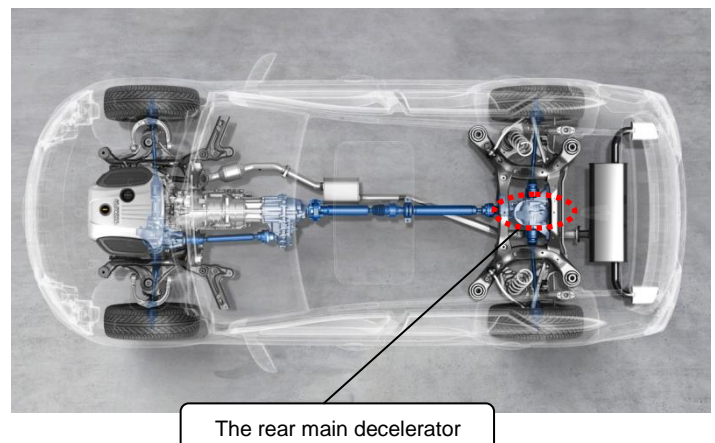
- **Issue of the *H8* and progress of the modification.** In the 3Q14 results announcement, GWM stated that the *H8* was delayed indefinitely due to the knocking noises identified in the rear main decelerator. It has engaged a new international supplier to develop the new part and conduct the follow-up testing accordingly. The defect was identified in early May 2014 and we believe the modification and validation process could be finished within 6-12 months from an engineering perspective. The structure of the main decelerator is not complicated; thus we believe it should not be a big engineering challenge.
- **What the dealers say.** A Haval dealer we spoke with hoped that it is better for the *H8* to come later than sooner from a marketing perspective. Sales of the *H9* are ramping up steadily thanks to the campaigns organized by dealers, like test drives, off-road competition, etc. The re-launch of the *H8* in 1Q this year may divert consumers' attention away from the *H9*, which could reduce the return on the efforts for both dealers and GWM.
- **The Shanghai Auto Show could be a good timing.** The Shanghai Auto Show in late April this year could be a good time window for the launch of the *H8*. It is the biggest event every year for carmakers to showcase new products and new technologies. Sales and customer deliveries could start in 2H of the year. We cautiously factor in a total volume of 8k units for the *H8* this year. The delay of the *H8* resulted in a significant de-rating of the stock in mid-2014, and investors we spoke to have very low expectation on it; thus the re-launch should be a positive surprise, which could lead to a further re-rating in our view.

Fig 8 The Haval *H9* is an off-road SUV



Source: Company data, March 2015

Fig 9 The Haval *H8* is a car-based SUV



The rear main decelerator

Source: Company data, Macquarie Research, March 2015

Strong margin recovery in FY15

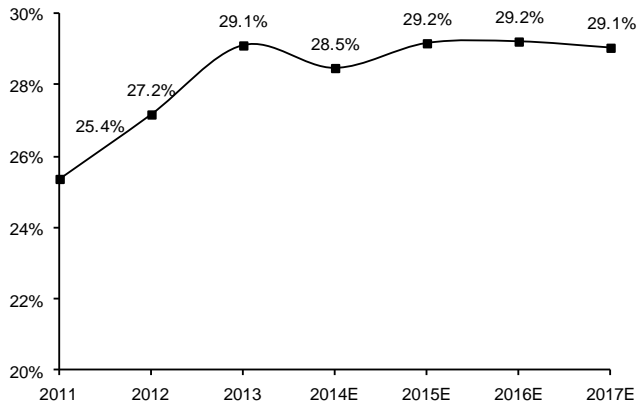
- **FY14 should be low point for margins.** Several factors had a negative impact on margins in FY14:
 - ⇒ **Model changeover in sedans.** The two sedans (the *C30* and *C50*) had facelifts in mid-2014; thus sales volumes declined substantially. The negative operating leverage impacted both gross profit margin and operating profit margin. Following the recovery in sales volume and ramp-up of several new SUVs (the *H1* and *H2*), the utilisation rate at several factories should improve this year, which should boost margins.
 - ⇒ **Launch of new models.** Margins for the new models in the initial 3-6 months are lower than average due to lack of scale. Three new SUVs were launched in 2H2014, which diluted the overall margins.
 - ⇒ **Extra expenses related to the Xushui factory and delay of the *H8*.** Extra expenses, including depreciation costs for the Xushui factory, R&D and testing expenses for the *H8*, were about Rmb200m per quarter, booked in administrative expenses. These expenses should gradually diminish from this year following the production of the *H9*, and completion of the *H8* modification.
- **Higher spending on R&D.** We expect GWM to spend more on R&D of new technologies and new products. We estimate GWM invests Rmb2.5bn, Rmb3.2bn and Rmb3.8bn for R&D in FY14-16E, representing 4.0%, 3.7% and 3.5% of sales revenue. We expect GWM to spend 3-4% of sales revenue in R&D in the medium term. This is slightly lower than the average of 5% for international carmakers like Toyota or BMW as GWM focuses more on new product development and technology applications, and less on research of advanced technologies like fuel cells.
- **Strong recovery in OPM.** For the above reasons and the upgrade in product mix (higher SUV contribution), we expect a strong recovery in margins from FY15E. The OPM should recover to above 16.1-16.6% in FY15-17E, from a low point of 14.8% in FY14E. We factor in minor margin erosion and higher SG&A expenses in FY16-17E as we assume higher spending for GWM in overseas expansion, especially in marketing and advertisements. GMW spends less than 1% of sales revenue in advertisements in the domestic market (0.6% in FY12 and 0.4% in FY13). The number could be raised to 1-2% in order to promote the new Haval brand. Transportation expenses for shipping vehicles to overseas markets could be also higher than selling vehicles in the domestic market.

Fig 10 Margin assumptions

	2011	2012	2013	2014E	2015E	2016E	2017E
Gross margin							
Pickup	25.0%	25.3%	26.0%	25.0%	25.0%	25.0%	25.0%
SUV	29.1%	29.5%	31.5%	30.0%	30.0%	29.8%	29.5%
Sedan	21.7%	24.3%	25.0%	20.0%	21.0%	21.0%	21.0%
Other vehicles	14.5%	15.0%	20.0%	20.0%	20.0%	20.0%	20.0%
Automobiles	25.4%	27.2%	29.1%	28.5%	29.2%	29.2%	29.1%
Others(parts, service, etc)	18.1%	21.7%	22.9%	23.2%	22.5%	22.5%	22.6%
Overall gross margin	24.9%	26.9%	28.6%	28.2%	28.9%	29.0%	28.8%
SG&A (incl. R&D) as % of revenue	8.2%	7.9%	8.2%	9.8%	8.6%	8.5%	8.8%
R&D spending (Rmb m)	635	957	1,693	2,500	3,200	3,800	4,600
R&D as % of revenue	2.1%	2.2%	3.0%	4.0%	3.7%	3.5%	3.5%
Operating margin	13.3%	15.4%	17.0%	14.8%	16.4%	16.6%	16.1%
Net margin	11.4%	13.2%	14.5%	12.9%	13.8%	13.9%	13.5%

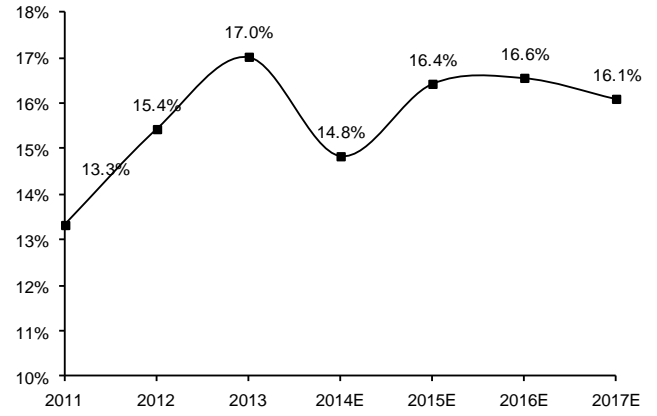
Source: Company data, Macquarie Research, March 2015

Fig 11 GPM of complete vehicles



Source: Company data, Macquarie Research, March 2015

Fig 12 OPM should recover strongly from FY15



Source: Company data, Macquarie Research, March 2015

Risks relate mainly to product launches, execution

- **Positioning upmarket brings risks.** As evidenced with the delay in the *H8*, efforts to move the product up market carries risks, as GWM aims to raise average prices by offering better product. We would highlight the steady increase in the *H6* price since its launch in late 2011 as its track record in being able to achieve this, but the *H8* delays highlight that it is still on a learning curve. The strong sales of the new *H2* and the quick ramp-up of the high-end SUV *H8* highlight that GWM still has consumer trust, but it needs to deliver even more if it is to be successful with new, higher-priced products like the *Coupe C*, *H7*, and the *H8*.
- **SUV boom to continue.** We believe that the strong growth in SUVs will continue, playing to GWM's strengths. SUV sales in China increased by 36% YoY in 2014, beating our bullish estimates of 30%. SUV penetration in the passenger vehicle market rose quickly to 21% in 2014 from 13% in 2012. We expect it to reach 30% by around 2020-2022 and eventually reach 40%. That said, if SUV sales were to turn down, GWM would be impacted.
- **Auto sales in China could flag, margins could slip.** We continue to believe that China can deliver trend growth of 10% pa for passenger vehicles for a few more years supported by robust personal income growth. A worse than expected economy, however, could temporarily hurt consumer sentiment and limit sales growth, which would impact GWM. Teething problems with its new product launches could hurt profit margins more than we expect. We provide a sensitivity analysis of the impact of lower sales and margins on our forecasts for 2015 and 2016.

Fig 13 Sensitivity analysis

	2015E			2016E		
	Bear-case	Base-case	Bull-case	Bear-case	Base-case	Bull-case
Sales volume (units)						
Pick-up	85,057	105,057	120,000	80,000	100,000	120,000
Sedan	53,714	68,714	90,249	45,000	60,000	90,000
SUV	649,909	757,026	796,202	831,000	951,000	1,053,000
H6	300,000	347,117	380,000	300,000	360,000	400,000
H2	143,707	173,707	180,000	150,000	180,000	200,000
Others	206,202	236,202	236,202	381,000	411,000	453,000
Total	788,680	930,797	1,006,451	956,000	1,111,000	1,263,000
Revenue	67,528	85,972	91,850	82,242	107,953	121,006
Gross profit margin						
Pick-up	23.0%	25.0%	27.0%	24.0%	25.0%	27.0%
Sedan	19.0%	21.0%	23.0%	20.0%	21.0%	23.0%
SUV	28.0%	30.0%	31.0%	29.0%	29.8%	31.0%
Blended	26.7%	28.9%	29.9%	27.9%	29.0%	30.1%
Admin exp as % of revenue	6.2%	5.7%	4.3%	6.0%	5.5%	3.9%
Operating profit (Rmb m)	9,300	14,127	17,348	12,420	17,773	23,225
NPAT (Rmb m)	7,610	11,884	14,563	10,133	14,877	19,402
EPS (Rmb)	2.50	3.91	4.79	3.33	4.89	6.38
EPS (HKD)	3.18	4.96	6.08	4.23	6.22	8.11
Variance vs. base case	-36%		23%	-32%		30%

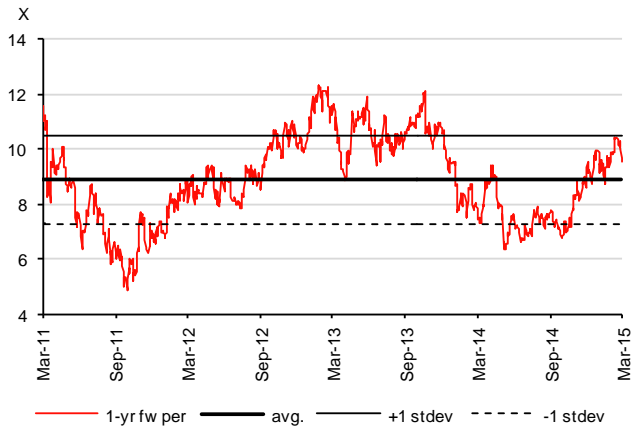
Source: Company data, Macquarie Research, March 2015

Fig 14 Great Wall quarterly earnings (PRC accounting)

(Rmb m)	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14
Sales volume (units)								
Pick-up	31,426	36,087	30,257	29,036	32,241	32,880	26,432	26,733
SUV	89,683	96,922	111,905	118,872	114,004	111,269	120,994	173,151
sedan	61,553	52,162	45,156	51,136	41,510	15,486	13,671	22,374
Others	6	18	12	11	6	8	9	4
Total	182,668	185,189	187,330	199,055	187,761	159,643	161,106	222,262
YoY chg			16%	0%	3%	-14%	-14%	12%
Model mix								
Pick-up	17%	19%	16%	15%	17%	21%	16%	12%
SUV	49%	52%	60%	60%	61%	70%	75%	78%
sedan	34%	28%	24%	26%	22%	10%	8%	10%
Others	0%	0%	0%	0%	0%	0%	0%	0%
Revenue	12,755	13,662	14,358	16,009	14,735	13,792	14,059	19,970
ASP (Rmb k)	69.8	73.8	76.6	80.4	78.5	86.4	87.3	89.8
Gross profit	3,586	4,065	4,160	4,435	4,131	4,016	3,892	5,607
GP margin	28.1%	29.8%	29.0%	27.7%	28.0%	29.1%	27.7%	28.1%
Business tax	468	487	521	581	511	474	523	806
Selling expense	410	445	483	557	447	459	461	664
Admin. Expense	483	551	643	1,071	780	824	899	1,594
As % of revenue								
Business tax	3.7%	3.6%	3.6%	3.6%	3.5%	3.4%	3.7%	4.0%
Selling expense	3.2%	3.3%	3.4%	3.5%	3.0%	3.3%	3.3%	3.3%
Admin. Expense	3.8%	4.0%	4.5%	6.7%	5.3%	6.0%	6.4%	8.0%
Other income	43.8	22.1	17.6	38.0	16.4	30.7	19.4	15.0
Operating profit	2,269	2,604	2,531	2,264	2,409	2,290	2,029	2,557
OP margin	17.8%	19.1%	17.6%	14.1%	16.3%	16.6%	14.4%	12.8%
Non-operating items	21.3	37.5	28.6	164.3	28.7	39.0	16.8	275.4
Pre-tax profit	2,290	2,641	2,560	2,429	2,437	2,329	2,046	2,833
Tax	392	448	473	375	432	380	414	355
Tax rate	17.1%	16.9%	18.5%	15.5%	17.7%	16.3%	20.3%	12.5%
Profit after tax	1,898	2,193	2,087	2,053	2,005	1,949	1,631	2,478
Minority	2	2	2	2	0	0	-1	1
%	0.1%	0.1%	0.1%	0.1%	0.0%	0.0%	0.0%	0.0%
NPAT	1,896	2,191	2,085	2,051	2,005	1,949	1,632	2,477
Net margin	14.9%	16.0%	14.5%	12.8%	13.6%	14.1%	11.6%	12.4%
YoY change	73%	74%	40%	11%	6%	-11%	-22%	21%
EPS (Rmb)	0.62	0.72	0.69	0.67	0.66	0.64	0.54	0.81
Profit/vehicle (Rmb)	10,381	11,831	11,129	10,306	10,681	12,208	10,130	11,145

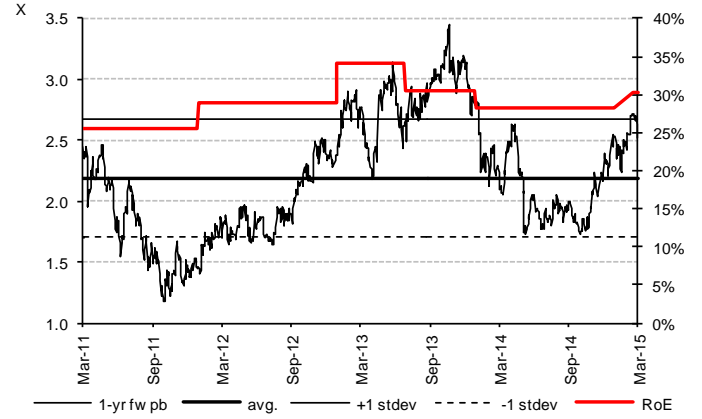
Source: Company data, Macquarie Research, March 2015

Fig 15 GWM 12-m forward PER



Source: FactSet, Macquarie Research, March 2015

Fig 16 GWM 12-m forward P/B vs. ROE



Source: FactSet, Macquarie Research, March 2015

Other stocks mentioned:

Chongqing Changan Auto (000625 CH, Rmb20.36, Outperform, TP: Rmb25.00)

Chongqing Changan Auto (200625 CH, HK\$21.24, Outperform, TP: HK\$31.80)

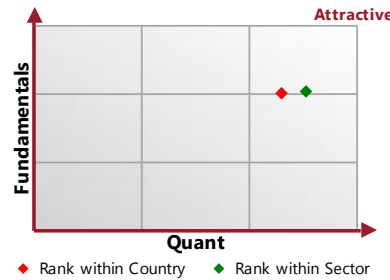
Macquarie Quant View

The quant model currently holds a reasonably positive view on Great Wall Motor Company. The strongest style exposure is Earnings Momentum, indicating this stock has received earnings upgrades and is well liked by sell side analysts. The weakest style exposure is Price Momentum, indicating this stock has had weak medium to long term returns which often persist into the future.

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Global Alpha Model
Sector Rank

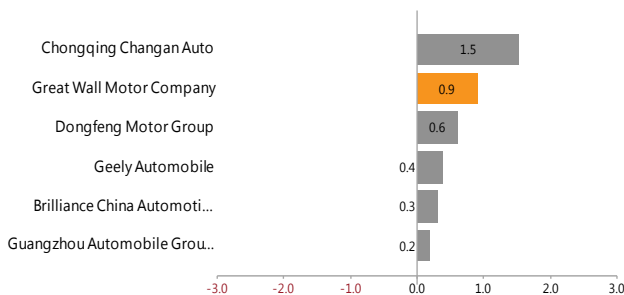
% of BUY recommendations 69% (22/32)
Number of Price Target downgrades 0
Number of Price Target upgrades 6



Displays where the company's ranked based on the fundamental consensus Price Target and Macquarie's Quantitative Alpha model. The rankings are displayed relative to the sector and country.

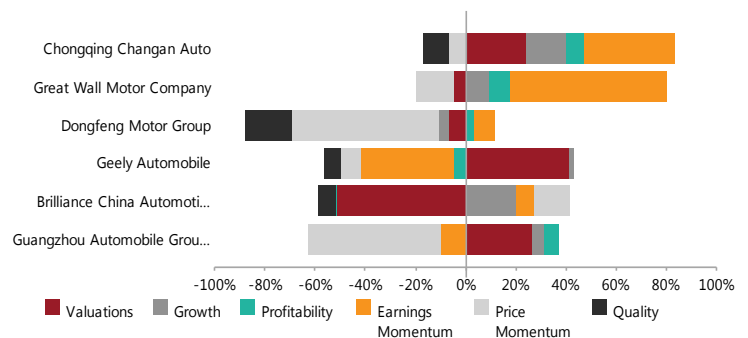
Macquarie Alpha Model ranking

A list of comparable companies and their Macquarie Alpha model score (higher is better).



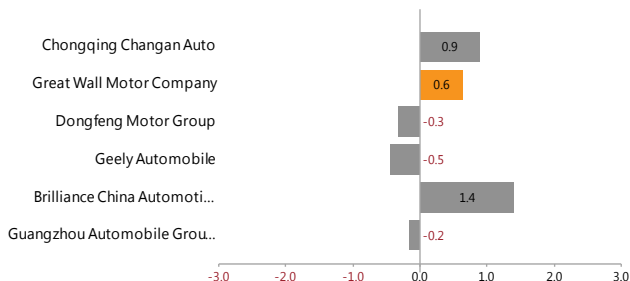
Factors driving the Alpha Model

For the comparable firms this chart shows the key underlying styles and their contribution to the current overall Alpha score.



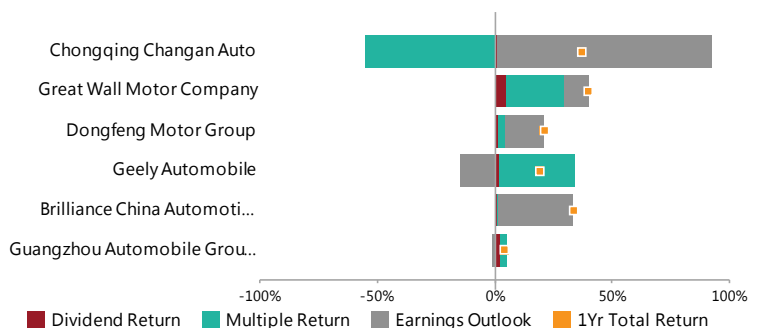
Macquarie Earnings Sentiment Indicator

The Macquarie Sentiment Indicator is an enhanced earnings revisions signal that favours analysts who have more timely and higher conviction revisions. Current score shown below.



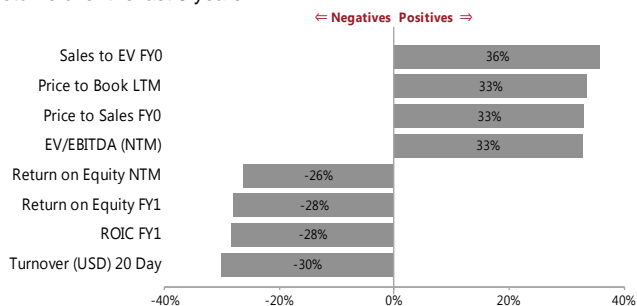
Drivers of Stock Return

Breakdown of 1 year total return (local currency) into returns from dividends, changes in forward earnings estimates and the resulting change in earnings multiple.



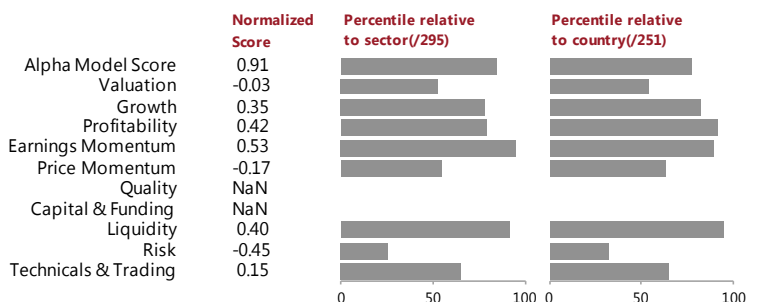
What drove this Company in the last 5 years

Which factor score has had the greatest correlation with the company's returns over the last 5 years.



How it looks on the Alpha model

A more granular view of the underlying style scores that drive the alpha (higher is better) and the percentile rank relative to the sector and country



For more details on the Macquarie Alpha model or for more customised analysis and screens, please contact the Macquarie Global Quantitative/Custom Products Group (cpg@macquarie.com)

Great Wall Motor Company (2333 HK, Outperform, Target Price: HK\$60.00)

Interim Results					Profit & Loss						
	1H/14A	2H/14E	1H/15E	2H/15E		2013A	2014E	2015E	2016E		
Revenue	m	28,527	34,029	38,457	47,515	Revenue	m	56,784	62,556	85,972	107,953
Gross Profit	m	8,147	9,500	11,015	13,819	Gross Profit	m	16,246	17,647	24,834	31,261
Cost of Goods Sold	m	20,380	24,529	27,442	33,696	Cost of Goods Sold	m	40,538	44,909	61,138	76,691
EBITDA	m	5,405	5,339	7,262	8,931	EBITDA	m	10,739	10,744	16,193	20,342
Depreciation	m	721	745	1,010	1,010	Depreciation	m	1,095	1,466	2,019	2,517
Amortisation of Goodwill	m	0	0	0	0	Amortisation of Goodwill	m	0	0	0	0
Other Amortisation	m	31	30	47	47	Other Amortisation	m	60	61	95	127
EBIT	m	4,653	4,564	6,205	7,874	EBIT	m	9,584	9,217	14,080	17,698
Net Interest Income	m	46	22	24	24	Net Interest Income	m	84	68	48	75
Associates	m	0	0	0	0	Associates	m	0	0	0	0
Exceptionals	m	0	0	0	0	Exceptionals	m	0	0	0	0
Forex Gains / Losses	m	0	0	0	0	Forex Gains / Losses	m	0	0	0	0
Other Pre-Tax Income	m	68	292	78	78	Other Pre-Tax Income	m	252	360	156	152
Pre-Tax Profit	m	4,767	4,879	6,307	7,976	Pre-Tax Profit	m	9,920	9,645	14,283	17,924
Tax Expense	m	-812	-769	-1,198	-1,201	Tax Expense	m	-1,688	-1,582	-2,400	-3,047
Net Profit	m	3,954	4,109	5,109	6,775	Net Profit	m	8,232	8,063	11,884	14,877
Minority Interests	m	0	-0	0	0	Minority Interests	m	-8	0	0	0
Reported Earnings	m	3,954	4,109	5,109	6,775	Reported Earnings	m	8,224	8,063	11,884	14,877
Adjusted Earnings	m	3,954	4,109	5,109	6,775	Adjusted Earnings	m	8,224	8,063	11,884	14,877
EPS (rep)		1.30	1.35	1.68	2.23	EPS (rep)		2.70	2.65	3.91	4.89
EPS (adj)		1.30	1.35	1.68	2.23	EPS (adj)		2.70	2.65	3.91	4.89
EPS Growth yoy (adj)	%	-3.3	-0.7	29.2	64.9	EPS Growth (adj)	%	44.5	-1.9	47.4	25.2
						PE (rep)	x	12.4	13.3	9.3	7.3
						PE (adj)	x	12.4	13.3	9.3	7.3
EBITDA Margin	%	18.9	15.7	18.9	18.8	Total DPS		0.82	0.80	1.17	1.47
EBIT Margin	%	16.3	13.4	16.1	16.6	Total Div Yield	%	2.5	2.3	3.2	4.1
Earnings Split	%	49.0	51.0	43.0	57.0	Basic Shares Outstanding	m	3,042	3,042	3,042	3,042
Revenue Growth	%	8.0	12.1	34.8	39.6	Diluted Shares Outstanding	m	3,042	3,042	3,042	3,042
EBIT Growth	%	-3.9	-3.7	33.4	72.5						
Profit and Loss Ratios					Cashflow Analysis						
		2013A	2014E	2015E	2016E		2013A	2014E	2015E	2016E	
Revenue Growth	%	31.6	10.2	37.4	25.6	EBITDA	m	10,739	10,744	16,193	20,342
EBITDA Growth	%	43.1	0.0	50.7	25.6	Tax Paid	m	-5,723	-5,065	-7,478	-9,575
EBIT Growth	%	46.1	-3.8	52.8	25.7	Chgs in Working Cap	m	882	453	2,285	2,045
Gross Profit Margin	%	28.6	28.2	28.9	29.0	Net Interest Paid	m	84	68	48	75
EBITDA Margin	%	18.9	17.2	18.8	18.8	Other	m	3,056	1,145	599	2,419
EBIT Margin	%	16.9	14.7	16.4	16.4	Operating Cashflow	m	9,039	7,345	11,646	15,306
Net Profit Margin	%	14.5	12.9	13.8	13.8	Acquisitions	m	0	0	0	0
Payout Ratio	%	30.3	30.0	30.0	30.0	Capex	m	-7,133	-7,000	-7,000	-7,000
EV/EBITDA	x	8.9	9.4	6.4	5.0	Asset Sales	m	437	502	578	665
EV/EBIT	x	9.9	10.9	7.4	5.7	Other	m	0	0	0	0
Balance Sheet Ratios						Investing Cashflow	m	-6,696	-6,498	-6,422	-6,335
ROE	%	33.2	26.2	31.4	31.5	Dividend (Ordinary)	m	-1,831	-2,495	-2,419	-3,565
ROA	%	20.1	16.3	20.1	19.9	Equity Raised	m	0	0	0	0
ROIC	%	52.0	36.3	40.6	42.6	Debt Movements	m	182	1,000	0	0
Net Debt/Equity	%	-24.3	-14.2	-17.8	-24.3	Other	m	-756	-100	-100	-100
Interest Cover	x	nmf	nmf	nmf	nmf	Financing Cashflow	m	-2,405	-1,595	-2,519	-3,665
Price/Book	x	3.6	3.2	2.6	2.1	Net Chg in Cash/Debt	m	-73	-758	2,694	5,295
Book Value per Share		9.2	11.1	13.8	17.2	Free Cashflow	m	1,906	345	4,646	8,306
						Balance Sheet		2013A	2014E	2015E	2016E
						Cash	m	6,991	4,765	7,459	12,754
						Receivables	m	21,210	23,410	32,079	40,245
						Inventories	m	2,764	2,994	4,076	5,113
						Investments	m	0	0	0	0
						Fixed Assets	m	18,652	24,984	29,965	33,491
						Intangibles	m	2,445	3,784	5,089	6,362
						Other Assets	m	543	589	640	695
						Total Assets	m	52,605	60,525	79,308	98,659
						Payables	m	21,954	23,933	33,815	42,062
						Short Term Debt	m	182	0	0	0
						Long Term Debt	m	0	0	0	0
						Provisions	m	634	760	912	1,095
						Other Liabilities	m	1,827	2,179	2,603	3,110
						Total Liabilities	m	24,597	26,873	37,330	46,267
						Shareholders' Funds	m	27,996	33,640	41,966	52,380
						Minority Interests	m	12	12	12	12
						Other	m	0	0	0	0
						Total S/H Equity	m	28,008	33,652	41,978	52,392
						Total Liab & S/H Funds	m	52,605	60,525	79,308	98,659

All figures in Rmb unless noted.

Source: Company data, Macquarie Research, March 2015

Important disclosures:

Recommendation definitions

Macquarie - Australia/New Zealand

Outperform – return >3% in excess of benchmark return
 Neutral – return within 3% of benchmark return
 Underperform – return >3% below benchmark return

Benchmark return is determined by long term nominal GDP growth plus 12 month forward market dividend yield

Macquarie – Asia/Europe

Outperform – expected return >+10%
 Neutral – expected return from -10% to +10%
 Underperform – expected return <-10%

Macquarie First South - South Africa

Outperform – expected return >+10%
 Neutral – expected return from -10% to +10%
 Underperform – expected return <-10%

Macquarie - Canada

Outperform – return >5% in excess of benchmark return
 Neutral – return within 5% of benchmark return
 Underperform – return >5% below benchmark return

Macquarie - USA

Outperform (Buy) – return >5% in excess of Russell 3000 index return
 Neutral (Hold) – return within 5% of Russell 3000 index return
 Underperform (Sell) – return >5% below Russell 3000 index return

Volatility index definition*

This is calculated from the volatility of historical price movements.

Very high–highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

Medium – stock should be expected to move up or down at least 30–40% in a year.

Low–medium – stock should be expected to move up or down at least 25–30% in a year.

Low – stock should be expected to move up or down at least 15–25% in a year.

* Applicable to Asia/Australian/NZ/Canada stocks only

Recommendations – 12 months

Note: Quant recommendations may differ from Fundamental Analyst recommendations

Financial definitions

All "Adjusted" data items have had the following adjustments made:

Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense

Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

EPS = adjusted net profit / efpowa*

ROA = adjusted ebit / average total assets

ROA Banks/Insurance = adjusted net profit / average total assets

ROE = adjusted net profit / average shareholders funds

Gross cashflow = adjusted net profit + depreciation

*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

Recommendation proportions – For quarter ending 31 December 2014

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	51.80%	58.06%	45.07%	44.42%	60.54%	46.81%	(for US coverage by MCUSA, 5.29% of stocks followed are investment banking clients)
Neutral	31.80%	27.37%	30.99%	50.10%	35.37%	33.51%	(for US coverage by MCUSA, 3.08% of stocks followed are investment banking clients)
Underperform	16.39%	14.57%	23.94%	5.48%	4.08%	19.68%	(for US coverage by MCUSA, 0.44% of stocks followed are investment banking clients)

2333 HK vs HSI, & rec history



(all figures in HKD currency unless noted)

000625 CH vs CSI 300, & rec history



(all figures in CNY currency unless noted)

200625 CH vs CSI 300, & rec history



(all figures in HKD currency unless noted)

Note: Recommendation timeline – if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, March 2015

12-month target price methodology

2333 HK: HK\$60.00 based on a PER methodology

000625 CH: Rmb25.00 based on a PER methodology

200625 CH: HK\$31.80 based on a PER methodology

Company-specific disclosures:

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Date	Stock Code (BVG code)	Recommendation	Target Price
17-Nov-2014	2333 HK	Outperform	HK\$51.00
11-Jul-2014	2333 HK	Outperform	HK\$52.00
09-May-2014	2333 HK	Outperform	HK\$50.00
11-Apr-2014	2333 HK	Outperform	HK\$54.00
22-Jan-2014	2333 HK	Outperform	HK\$53.00
18-Oct-2013	2333 HK	Outperform	HK\$60.30
04-Jul-2013	2333 HK	Outperform	HK\$45.30
16-Apr-2013	2333 HK	Outperform	HK\$33.00
17-Jan-2013	2333 HK	Neutral	HK\$25.60
04-Oct-2012	2333 HK	Outperform	HK\$23.90
29-Jun-2012	2333 HK	Outperform	HK\$18.60

Target price risk disclosures:

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