



Rating
Buy

Asia
China

Automobiles &
Components

Company
**Great Wall Motor
Alert**

Reuters 2333.HK	Bloomberg 2333 HK	Exchange HKG	Ticker 2333
ADR Ticker GWLLY	ISIN US39137B1098		

Date
23 March 2015

Forecast Change

Price at 23 Mar 2015 (HKD)	50.95
Price target - 12mth (HKD)	57.40
52-week range (HKD)	50.95 - 27.05
HANG SENG INDEX	24,375

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Analyst presentation takeaways and earnings upgrade

Great Wall Motor (GWM) hosted an analyst call on 21 March and an analyst briefing on 23 March. Key takeaways are as follows:

- Management maintained its sales target of 850k units for FY15E. The company believes that the growth drivers will come from 1) further ramp-up of the models launched in 2H14 (Haval H1/H2/H9) and 2) new models to be launched in FY15E, while sales of H6 will be stable. GWM remains cautious on export amid geopolitical issues and depreciation of rubles.

- Regarding the major new models for FY15E, GWM will launch Haval H8 SUV in April, Coupe C SUV in late 1H15 and H7 SUV by yearend 2015. The Haval H8 will be re-launched during Shanghai Auto Show in April with retail price above RMB200,000. After initial ramp-up of sales, GWM plans to challenge a monthly sales target of 4,000-5,000 units for H8. In addition, H6 will be ready for new generation upgrade in FY16E.

- The company attributed the 1ppt gross profit margin YoY decline in FY14 mainly to the lower initial margins for new models and sedan segment margin drag, while H6 margin remained stable despite the cash incentives in 2H14. Amid continuous mix improvement towards SUVs, GWM believes there is room for margin enhancement given ramp-up of newly launched models and new H8 and Coupe C models.

- The increase in R&D expenses in FY14 was due to continuous investment in technology and the additional cost related to H8 re-development. Management comments that GWM will continue to invest in R&D. Having said that, the company is also keen to maintain a stable margin trend. Furthermore, H8-related R&D cost will be eliminated in FY15E, in our view.

- The decline in cash position at end-FY14 was due to the increase in undue bank acceptance bills. Management attributed the increase in bills receivables to strong sales in 4Q14. The inventory level at GWM's dealers is currently still below one month on average, according to management.

Raise FY15-16E earnings on new SUV models; maintain Buy

We raise our FY15-16E earnings estimates to reflect 1) increase in higher-price SUV sales with the H8 launch and 2) lower administrating expense ratio with the removal of H8 related R&D costs. We now value GWM at 12.0x FY15E P/E (from 11.0x), above its historical trading average and slightly above the long-term sector average of 11x, given our expectation of strong FY15/16E earnings rebound. We believe our target multiple is justified, given estimated FY14-17 three-year EPS CAGR of 23%. Our target price also implies FY15E P/BV of 3.3x, which seems reasonable considering sustainably high ROE of about 29% in FY16E. Key downside risks are weaker-than-expected reception for new models and competition intensity.

Key changes

Price target	51.20 to 57.40	↑	12.1%
Sales (FYE)	80,281 to 78,328	↓	-2.4%
Op prof margin (FYE)	16.3 to 17.3	↑	6.1%
Net profit (FYE)	11,245.5 to 11,570.7	↑	2.9%

Source: Deutsche Bank

Stock data

Market cap (HKDm)	155,011
Market cap (USDm)	19,981
Shares outstanding (m)	3,042.4
Major shareholders	Baoding Woetse (56%)
Free float (%)	44
Avg daily value traded (USDm)	45.0

Source: Deutsche Bank

Key data

FYE 12/31	2014A	2015E	2016E
Sales (CNYm)	60,317	78,328	93,130
Net Profit (CNYm)	8,041.5	11,570.7	13,548.6
DB EPS (CNY)	2.64	3.80	4.45
PER (x)	10.3	10.7	9.1
Yield (net) (%)	2.9	2.8	3.3

Source: Deutsche Bank

Deutsche Bank AG/Hong Kong

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