

Equities

Hong Kong/China

Company Update

Company Report

Great Wall Motor (2333 HK)

23 March 2015

Haval H8 to makes its debut by end of April

Great Wall Motor announced that its 2014 earnings was down 2% y/y to Rmb8,042m, which the market has already known based on previous announcement. For the 2H14 alone, sales grew 12% y/y to Rmb34bn, while gross margin declined 1.5%-pt to 23.2% due to higher fixed cost per unit of sedan given low production levels but this is well within expectation. Overall, this set of numbers is very much in line with expectation.

- Growth of Haval H8 to exceed H9.** What is drawing most attention is that the company announced that Haval H8 is finally ready for nation-wide roll-out before the end of April. With the help of a German auto parts maker, the company has now fully resolved the noise issue with repeated testing. The company says Haval H8 is now even more feature-rich and competitive than its peers (eg. Toyota's Highlander which is priced at Rmb230k). The company expects its growth could exceed that of Haval H9, which was launched in 2H14 and is priced at above Rmb200k. The model appears to have gained customer acceptance, giving management more confidence over the pricing of Haval H8. Haval H8 will make its debut in the upcoming Shanghai Auto Show (20-29 April 2015) and is expected to book 4-5k units per month during the early months.
- Raise target price to HK\$57.** We raise our 2015 earnings estimate by 3% to reflect better pricing outlook after the roll-out of the high-end models. We also raise our target multiple to 13x (previous: 11x) which is 1 standard deviation above historical average (7x) to reflect better growth prospect this year. Our new target price comes to HK\$57 or 15% potential upside. We upgrade the stock from Accumulate to Buy.

Investment Summary

FY-end Dec	2012	2013	2014E	2015E	2016E
Turnover (Rmb m)	56,784	62,599	76,222	91,813	110,926
Growth (%)	32	10	22	20	21
Net Profit (Rmb m)	8,224	8,042	10,670	12,589	15,236
Growth (%)	44	(2)	33	18	21
EPS (RMB)	2.70	2.64	3.51	4.14	5.01
Growth (%)	44	(2)	33	18	21
PER (x)	14.6	15.0	11.3	9.6	7.9
OCF/Share (Rmb)	2.97	2.11	2.95	3.42	4.96
P/B (x)	4.3	3.6	2.9	2.4	2.0
EV/EBITDA (x)	12.4	12.8	9.3	7.7	6.1
DPS (Rmb)	0.82	0.80	1.05	1.24	1.50
Yield (%)	2.1	2.0	2.7	3.1	3.8

Source: Company data, CER estimates

China / Automobile

BUY

Share Price	Target Price	Upside
HK\$49.3	HK\$57.0	15.6%

(as of 20 March 2015)

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52 Range (HK\$)	26.1-53.0
DVD yield %	2.38

Latest Key Data

FF no of shares (m)	1,033
FF (%)	100
FF market cap (HK\$ m)	53,622
12M daily turnover (HK\$ m)	330.02
12M volatility (%)	43.32
12M Hi/Lo (HK\$)	26.1-53.0
PEG FY15-17E (x)	0.6
RoAE FY14 (%)	28.7
P/B FY15E (x)	2.4
Net debt/equity FY14 (%)	Net cash

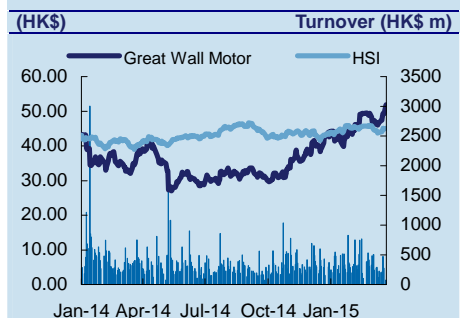
Performance (%)

	1M	YTD	12M
Absolute	4.8	17.7	48.1
Relative to HSCIE	3.4	15.8	18.6

Major Shareholders (%)

Baoding Innovation Great Wall	56.0
JP Morgan Chase & Co	5.5

Price Chart



Source: Bloomberg, CER estimates

Coupe C to launch by mid-2017. Other than Haval H8, the company will also launch two other key products including Coupe C in 1H15 and Haval H7 by end of 2015. Management expects Coupe C to enjoy a gross margin of over 30% just like Haval H6 after full production. Given more stringent requirement on fuel efficiency by 2020, the company is working to launch Haval H7 which is its first new energy vehicle. It is a hybrid model and is scheduled to roll out by 2H16 to 1H17.

Extent of Haval H2 margin improvement to depend on Tianjin output. For the recently launched Haval H2, its gross margin has improved. In fact, the company plans to raise prices on Haval H2 and H6 (when they roll out the automatic version later on). However, the extent of margin improvement will depend on the output level of the Tianjin plant and whether its existing capacity can be boosted. Currently, the Tianjin plant is operating with output (300k units) already 50% higher than its designed capacity (200k units).

R&D expense to normalize. 2014 R&D per sales was 4.1%, which is abnormally high due to the delayed launch of Haval H8. However, that expense has dropped in 4Q14 and is even lower in 1Q15 (mainly related to late stage testing). Also the roll-out of Haval H9 has shared some of the burden from Haval H8. For 2015, excluding the one-off expenses relating to the delay launch of Haval H8, R&D expense would grow at a normal pace of 10-20% y/y. Increase in capex in 2015 is mostly for the ongoing construction projects like Phase 2 and 3 of the Xushui base.

Expect margin improvement in 2015. X2014 gross margin has dropped slightly but is the y/y change is within 1%-pt and is mainly due to the change in product mix (with Haval H1 and H2 lower in the price range). In 2015, the company expects gross margin to improve, driven mainly by Haval H8, Coupe C, Haval H6 and H9.

Company remains in net cash. During 2014, SG&A per sales increased further by 1%-pt to 10% , due to higher R&D expenses (including but not limited to the delayed launch of Haval H8). Receivable and inventory days have remained at very stable levels. The company is still in a net cash position with Rmb3,394m.

Table 1: P&L summary

Year end Dec 31	2013	2014	1H14	2H14
Rmb m				
Revenue	56,784	62,599	28,527	34,072
+/-	32%	10%	8.0%	12.2%
Operating costs (COGS)	(40,538)	(45,252)	(20,380)	(24,872)
Business tax and surcharges	(2,057)	(2,282)	(985)	(1,297)
Gross profit	14,189	15,066	7,162	7,903
+/-	42%	6%	7.0%	5.5%
Gross margin	25.0%	24.1%	25.1%	23.2%
SG&A	(4,643)	(5,907)	(2,511)	(3,396)
+/-	37%	27%	32.9%	23.4%
SG&A per sales	8.2%	9.4%	8.8%	10.0%
EBIT	9,547	9,159	4,652	4,507
+/-	45%	-4%	-3.2%	-4.9%
EBIT margin	16.8%	14.6%	16.3%	13.2%
Financial expenses	84	129	46	83
Non-operating income	279	441	86	355
as % of sales	0.5%	0.7%	0.3%	1.0%
Non-operating expenses	(27)	(44)	(18)	(26)
Income tax expenses	(1,688)	(1,599)	(812)	(787)
Effective tax rate	17.0%	16.6%	17.0%	16.1%
Minority interest	(8)	0	0.1	0
MI as % of after-tax profit	0.1%	0.0%	-0.003%	-0.006%
Net profit	8,224	8,042	3,954	4,087
+/-	44%	-2%	-3.3%	-1.2%
Net margin	14.5%	12.8%	13.9%	12.0%

Source: Company data and CER estimates

COMPANY DESCRIPTION

Great Wall Motor Company Limited is engaged in the manufacture and distribution of complete automobiles, as well as automobile parts and components. Its main products consist primarily of pickup trucks, sports utility vehicles (SUVs) and sedans.

Profit & Loss (Consolidated)

FY-end 31 Dec (Rmb m)	2012	2013	2014E	2015E	2016E
Sales	56,784	62,599	76,222	91,813	110,926
Cost of sales	(42,595)	(47,533)	(56,896)	(68,534)	(82,801)
Gross profit	14,189	15,066	19,326	23,279	28,126
Other income	(22)	(76)	(50)	(50)	(50)
Operating expenses	(4,643)	(5,907)	(6,784)	(8,263)	(9,983)
Operating profit	9,668	9,244	12,548	15,068	18,233
Finance cost, net	84	129	36	82	121
Share of P/L of asso. & JCE	59	32	20	20	20
Pre-tax profit	9,920	9,640	12,986	15,508	18,768
Tax	(1,688)	(1,599)	(2,208)	(2,791)	(3,378)
Minorities	(8)	0	(108)	(127)	(154)
Net profit	8,224	8,042	10,670	12,589	15,236
EBITDA	10,647	10,590	14,239	16,963	20,339
EBIT	9,547	9,159	12,543	15,016	18,142
EPS (Rmb)	2.70	2.64	3.51	4.14	5.01
DPS (Rmb)	0.82	0.80	1.05	1.24	1.50

Source: Company, CER estimates

Cash Flow (Consolidated)

FY-end 31 Dec (Rmb m)	2012	2013	2014E	2015E	2016E
Operating cash flow	9,039	6,416	8,989	10,418	15,103
Net profit	8,224	8,042	10,670	12,589	15,236
Depreciation & amortization	1,100	1,431	1,696	1,947	2,197
Change in working capital	31	(4,003)	(1,050)	(3,681)	(1,893)
Others	(316)	946	(2,328)	(437)	(437)
Investment cash flow	(6,696)	(4,563)	(4,063)	(4,063)	(4,063)
Net Capex	(7,133)	(5,000)	(4,500)	(4,500)	(4,500)
Disposal	12,526	12,526	12,526	12,526	12,526
Change in LT investment	0	0	0	0	0
Change in other assets	(12,089)	(12,089)	(12,089)	(12,089)	(12,089)
Free cash flow	15,735	10,979	13,052	14,481	19,166
Financing cash flow	(2,405)	(2,616)	(3,201)	(3,777)	(4,571)
Change in share capital	0	0	0	0	0
Net change in debt	182	(182)	0	0	0
Dividend paid	(1,831)	(2,434)	(3,201)	(3,777)	(4,571)
Net impact of exchange	(11)	0	0	0	0
Net cash flow	(73)	(763)	1,725	2,579	6,469

Source: Company, CER estimates

Balance Sheet (Consolidated)

FY-end 31 Dec (Rmb m)	2012	2013	2014E	2015E	2016E
Total assets	52,605	61,345	69,863	82,205	98,650
Current assets	31,026	35,314	40,446	50,234	64,376
Cash & ST investments	6,991	3,394	6,484	9,063	15,532
Marketable securities & ST inv	4	0	0	0	0
Account & notes receivable	656	730	1,044	1,509	1,823
Inventories	2,764	3,470	3,707	5,358	6,473
Others	20,611	27,719	29,210	34,303	40,548
Non-current assets	21,579	26,032	29,418	31,971	34,274
LT investments	52	72	72	72	72
Net fixed assets	18,646	22,548	25,623	27,847	29,827
Others	2,880	3,411	3,722	4,052	4,374
Total liabilities	24,597	27,827	28,876	32,405	38,185
Current liabilities	22,839	26,145	27,193	30,722	36,503
Account payable	10,712	14,093	13,048	14,288	17,262
ST borrowings	0	0	0	0	0
Others	12,127	12,052	14,146	16,435	19,241
Non-current liabilities	1,757	1,682	1,682	1,682	1,682
Long-term debts	0	0	0	0	0
Others	1,757	1,682	1,682	1,682	1,682
Total equities	28,008	33,518	40,988	49,800	60,465
Shareholders' equity	27,996	33,452	40,921	49,733	60,399
Minority shareholders	12	67	67	67	67
Total liabilities + SH equities	52,605	61,345	69,863	82,205	98,650
Net cash / (debt)	6,808	3,394	6,484	9,063	15,532
Working capital	2,028	5,784	6,835	10,515	12,408
Total capital employed	28,190	33,518	40,988	49,800	60,465
Shareholders' equity + Minorities	28,008	33,518	40,988	49,800	60,465
Net gearing (%)	(24.3)	(10.1)	(15.8)	(18.2)	(25.7)

Source: Company, CER estimates

Financial Summary

FY-end 31 Dec	2012	2013	2014E	2015E	2016E
Growth (%)					
Revenue	31.6	10.2	21.8	20.5	20.8
EBITDA	42.0	-0.5	34.5	19.1	19.9
EBIT	44.6	-4.1	36.9	19.7	20.8
Net profit	44.5	-2.2	32.7	18.0	21.0
EPS	44.5	-2.2	32.7	18.0	21.0
Margins (%)					
Gross	25.0	24.1	25.4	25.4	25.4
EBITDA	18.8	16.9	18.7	18.5	18.3
EBIT	16.8	14.6	16.5	16.4	16.4
Net	14.5	12.8	14.0	13.7	13.7
Others (%)					
Effective tax rate	17.0	16.6	17.0	18.0	18.0
Payout ratio	44.5	-2.2	32.7	18.0	21.0
RoCE	29.4	24.0	26.1	25.3	25.2
Average RoE	33.2	26.2	28.7	27.8	27.7
Average RoA	89.5	92.3	93.5	91.9	90.9
Interest cover (x)	63	114	71	349	182

Source: Company, CER estimates

Everbright Research Limited Rating System

Buy	Expected to outperform the benchmark index by >15% over the next six months
Accumulate	Expected to outperform the benchmark index by 5 - 15% over the next six months
Hold	Expected to outperform or underperform the benchmark index by <5% over the next six months
Reduce	Expected to underperform the benchmark index by 5 - 15% over the next six months
Sell	Expected to underperform the benchmark index by >15% over the next six months

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