



## EARNINGS REVIEW

## Great Wall Motor Co. (2333.HK)

Neutral

Equity Research

## In line with expectations: Strong product cycle priced in; Neutral

## What surprised us

On March 20, Great Wall announced 4Q2014 revenue/earnings at Rmb20.0bn/2.46bn, in line with GHe. The in-line 4Q14 net profit was attributed to: 1) higher SG&A as a % of total revenue at 10.2% vs. GHe at 9.7%, largely due to one-off R&D expenses associated with the soon-to-be-launched mid-size SUV H8 improvement; offset by 2) lower effective tax rate at 13.3% vs. GHe at 14.7% as a result of continued preferential high tech enterprise tax. According to the company, its new SUV model H8 will be launched at the Shanghai auto show on April 20, 2 months earlier than GHe's end of June.

## What to do with the stock

We raise our 2015-17E earnings by 9.0%/6.5%/4.0% to factor in the earlier-than-expected H8 launch and stronger SUV sales volume. Accordingly, we increase our 12m TP for Great Wall A/H to Rmb43.02/HK\$49.50 (from Rmb40.79/HK\$46.62). Our A/H TPs are based on 2.8X/2.6X 2015E P/B and 32.4% 2015-17E avg ROE (from 2.7X/2.5X and 30.9%). Great Wall A/H is trading at 11.6X/9.4X 2015E P/E vs. A/H share avg 11.5/9.4X. We retain our Neutral on Great Wall as we view its strong product cycle as fully priced in. Risks: Stronger/weaker new product cycle beyond 2016; price/OPM erosion on competitive SUV market; lower new model volume.

## 4QFY14 earnings summary

| (Rmb mn)                 | 4Q2014 | GH 4Q2014E | Var%  | 4Q2013 | YoY%  | 3Q2014 | QoQ%  |
|--------------------------|--------|------------|-------|--------|-------|--------|-------|
| Revenue                  | 20,012 | 20,012     | 0%    | 16,009 | 25%   | 14,059 | 42%   |
| Gross profit (incl. D&A) | 4,534  | 4,571      | -1%   | 3,847  | 18%   | 3,369  | 35%   |
| EBIT                     | 2,498  | 2,628      | -5%   | 2,219  | 13%   | 2,009  | 24%   |
| Pretax profit            | 2,827  | 2,901      | -3%   | 2,425  | 17%   | 2,046  | 38%   |
| Reported net profit      | 2,455  | 2,465      | 0%    | 2,048  | 20%   | 1,632  | 50%   |
| Reported EPS (Rmb)       | 0.81   | 0.81       | 0%    | 0.67   | 20%   | 0.54   | 50%   |
| (%)                      |        |            |       |        |       |        |       |
| Gross margin             | 22.7%  | 22.8%      | -0.2% | 24.0%  | -1.4% | 24.0%  | -1.3% |
| EBIT margin              | 12.5%  | 13.1%      | -0.7% | 13.9%  | -1.4% | 14.3%  | -1.8% |
| Pretax profit margin     | 14.1%  | 14.5%      | -0.4% | 15.1%  | -1.0% | 14.6%  | -0.4% |
| Net profit margin        | 12.3%  | 12.3%      | -0.1% | 12.8%  | -0.5% | 11.6%  | 0.7%  |

Source: Company data, Gao Hua Securities Research.

## INVESTMENT LIST MEMBERSHIP

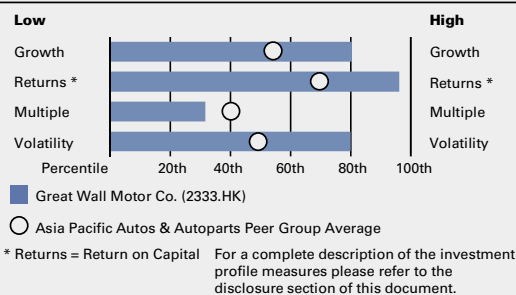
Neutral

## Coverage View: Neutral

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## Investment Profile

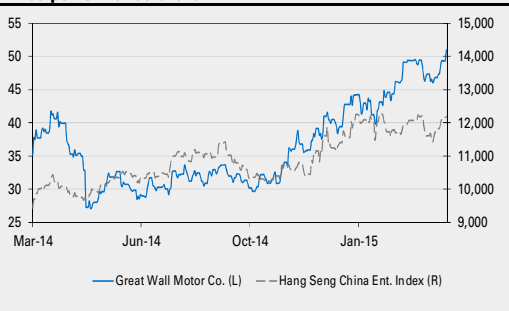


## Key data

|                                       | Current              |
|---------------------------------------|----------------------|
| Price (HK\$)                          | 50.95                |
| 12 month price target (HK\$)          | 49.50                |
| 601633.SS Price (Rmb)                 | 51.68                |
| 601633.SS 12 month price target (Rmb) | 43.02                |
| Market cap (HK\$ mn / US\$ mn)        | 139,510.3 / 17,979.9 |
| Foreign ownership (%)                 | --                   |

|                     | 12/14 | 12/15E | 12/16E | 12/17E |
|---------------------|-------|--------|--------|--------|
| EPS (Rmb) New       | 2.64  | 4.20   | 5.27   | 5.94   |
| EPS revision (%)    | (0.1) | 9.0    | 6.5    | 4.0    |
| EPS growth (%)      | (2.2) | 58.9   | 25.4   | 12.9   |
| EPS (dil) (Rmb) New | 2.64  | 4.20   | 5.27   | 5.94   |
| P/E (X)             | 10.3  | 9.7    | 7.7    | 6.9    |
| P/B (X)             | 2.5   | 2.9    | 2.3    | 1.9    |
| EV/EBITDA (X)       | 7.3   | 7.1    | 5.5    | 4.6    |
| Dividend yield (%)  | 2.9   | 3.1    | 3.9    | 4.4    |
| ROE (%)             | 26.2  | 33.7   | 33.4   | 30.2   |
| CROCI (%)           | 29.5  | 34.0   | 34.6   | 33.0   |

## Price performance chart



| Share price performance (%)        | 3 month | 6 month | 12 month |
|------------------------------------|---------|---------|----------|
| Absolute                           | 19.5    | 63.0    | 45.4     |
| Rel. to Hang Seng China Ent. Index | 14.6    | 41.5    | 12.5     |

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 3/23/2015 close.

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# Great Wall Motor Co.: Summary Financials

| Profit model (Rmb mn)                     | 12/14            | 12/15E           | 12/16E           | 12/17E           | Balance sheet (Rmb mn)                | 12/14           | 12/15E          | 12/16E          | 12/17E           |
|---|------------------|------------------|------------------|------------------|---------------------------------------|-----------------|-----------------|-----------------|------------------|
| <b>Total revenue</b>                      | <b>62,599.1</b>  | <b>91,564.6</b>  | <b>110,324.3</b> | <b>121,822.7</b> | Cash & equivalents                    | 3,394.3         | 4,093.5         | 7,731.2         | 13,196.9         |
| Cost of goods sold                        | (45,861.0)       | (66,486.5)       | (79,611.6)       | (87,543.6)       | Accounts receivable                   | 24,090.5        | 35,237.5        | 42,456.9        | 46,881.9         |
| SG&A                                      | (5,907.1)        | (8,264.6)        | (9,626.9)        | (10,386.6)       | Inventory                             | 3,470.4         | 5,031.1         | 6,024.4         | 6,624.6          |
| R&D                                       | --               | --               | --               | --               | Other current assets                  | 4,358.6         | 4,358.6         | 4,358.6         | 4,358.6          |
| Other operating profit/(expense)          | 0.0              | 0.0              | 0.0              | 0.0              | <b>Total current assets</b>           | <b>35,313.7</b> | <b>48,720.8</b> | <b>60,571.0</b> | <b>71,062.0</b>  |
| <b>EBITDA</b>                             | <b>10,831.0</b>  | <b>16,813.6</b>  | <b>21,085.7</b>  | <b>23,892.5</b>  | Net PP&E                              | 22,547.7        | 27,589.2        | 33,119.9        | 39,062.3         |
| Depreciation & amortization               | (1,672.3)        | (1,902.9)        | (2,268.9)        | (2,662.2)        | Net intangibles                       | 2,814.7         | 2,737.7         | 2,660.7         | 2,583.8          |
| <b>EBIT</b>                               | <b>9,158.6</b>   | <b>14,910.7</b>  | <b>18,816.8</b>  | <b>21,230.3</b>  | Total investments                     | 79.5            | 111.4           | 143.2           | 175.1            |
| Interest income                           | 129.4            | 84.6             | 102.0            | 192.6            | Other long-term assets                | 589.6           | 726.0           | 800.3           | 842.0            |
| Interest expense                          | 0.0              | (4.5)            | (4.5)            | (4.5)            | <b>Total assets</b>                   | <b>61,345.3</b> | <b>79,885.0</b> | <b>97,295.3</b> | <b>113,725.2</b> |
| Income/(loss) from uncons. subs.          | 0.0              | 0.0              | 0.0              | 0.0              | Accounts payable                      | 18,231.3        | 26,430.6        | 31,648.3        | 34,801.5         |
| Others                                    | 352.1            | 231.8            | 181.8            | 131.8            | Short-term debt                       | 75.7            | 75.7            | 75.7            | 75.7             |
| <b>Pretax profits</b>                     | <b>9,640.1</b>   | <b>15,222.6</b>  | <b>19,096.1</b>  | <b>21,550.2</b>  | Other current liabilities             | 7,837.7         | 9,236.1         | 10,211.3        | 10,829.1         |
| Income tax                                | (1,598.9)        | (2,448.7)        | (3,071.8)        | (3,466.5)        | <b>Total current liabilities</b>      | <b>26,144.7</b> | <b>35,742.4</b> | <b>41,935.3</b> | <b>45,706.3</b>  |
| Minorities                                | 0.3              | 0.5              | 0.6              | 0.7              | Long-term debt                        | 0.0             | 0.0             | 0.0             | 0.0              |
| <b>Net income pre-preferred dividends</b> | <b>8,041.5</b>   | <b>12,774.4</b>  | <b>16,025.0</b>  | <b>18,084.4</b>  | Other long-term liabilities           | 1,682.1         | 1,682.6         | 1,683.1         | 1,683.6          |
| Preferred dividends                       | 0.0              | 0.0              | 0.0              | 0.0              | Total long-term liabilities           | 1,682.1         | 1,682.6         | 1,683.1         | 1,683.6          |
| <b>Net income (pre-exceptionals)</b>      | <b>8,041.5</b>   | <b>12,774.4</b>  | <b>16,025.0</b>  | <b>18,084.4</b>  | <b>Total liabilities</b>              | <b>27,826.8</b> | <b>37,425.0</b> | <b>43,618.4</b> | <b>47,389.9</b>  |
| Post-tax exceptionals                     | 0.0              | 0.0              | 0.0              | 0.0              | <b>Preferred shares</b>               | <b>0.0</b>      | <b>0.0</b>      | <b>0.0</b>      | <b>0.0</b>       |
| <b>Net income</b>                         | <b>8,041.5</b>   | <b>12,774.4</b>  | <b>16,025.0</b>  | <b>18,084.4</b>  | <b>Total common equity</b>            | <b>33,451.9</b> | <b>42,393.9</b> | <b>53,611.4</b> | <b>66,270.5</b>  |
| EPS (basic, pre-except) (Rmb)             | 2.64             | 4.20             | 5.27             | 5.94             | Minority interest                     | 66.6            | 66.1            | 65.5            | 64.8             |
| EPS (basic, post-except) (Rmb)            | 2.64             | 4.20             | 5.27             | 5.94             | <b>Total liabilities &amp; equity</b> | <b>61,345.3</b> | <b>79,885.0</b> | <b>97,295.3</b> | <b>113,725.2</b> |
| EPS (diluted, post-except) (Rmb)          | 2.64             | 4.20             | 5.27             | 5.94             | <b>BVPS (Rmb)</b>                     | <b>11.00</b>    | <b>13.93</b>    | <b>17.62</b>    | <b>21.78</b>     |
| DPS (Rmb)                                 | 0.80             | 1.26             | 1.58             | 1.78             |                                       |                 |                 |                 |                  |
| Dividend payout ratio (%)                 | 30.3             | 30.0             | 30.0             | 30.0             |                                       |                 |                 |                 |                  |
| Free cash flow yield (%)                  | (1.4)            | 2.5              | 6.0              | 8.3              |                                       |                 |                 |                 |                  |
| Growth & margins (%)                      | 12/14            | 12/15E           | 12/16E           | 12/17E           | Ratios                                | 12/14           | 12/15E          | 12/16E          | 12/17E           |
| Sales growth                              | 10.2             | 46.3             | 20.5             | 10.4             | CROCI (%)                             | 29.5            | 34.0            | 34.6            | 33.0             |
| EBITDA growth                             | 1.2              | 55.2             | 25.4             | 13.3             | ROE (%)                               | 26.2            | 33.7            | 33.4            | 30.2             |
| EBIT growth                               | (4.1)            | 62.8             | 26.2             | 12.8             | ROA (%)                               | 14.1            | 18.1            | 18.1            | 17.1             |
| Net income growth                         | (2.2)            | 58.9             | 25.4             | 12.9             | ROACE (%)                             | 30.8            | 37.0            | 37.8            | 36.1             |
| EPS growth                                | (2.2)            | 58.9             | 25.4             | 12.9             | Inventory days                        | 24.8            | 23.3            | 25.3            | 26.4             |
| Gross margin                              | 26.7             | 27.4             | 27.8             | 28.1             | Receivables days                      | 123.3           | 118.2           | 128.5           | 133.8            |
| EBITDA margin                             | 17.3             | 18.4             | 19.1             | 19.6             | Payable days                          | 133.2           | 122.6           | 133.1           | 138.5            |
| EBIT margin                               | 14.6             | 16.3             | 17.1             | 17.4             | Net debt/equity (%)                   | (9.9)           | (9.5)           | (14.3)          | (19.8)           |
|   |                  |                  |                  |                  | Interest cover - EBIT (X)             | NM              | NM              | NM              | NM               |
| Cash flow statement (Rmb mn)              | 12/14            | 12/15E           | 12/16E           | 12/17E           | Valuation                             | 12/14           | 12/15E          | 12/16E          | 12/17E           |
| Net income pre-preferred dividends        | 8,041.5          | 12,774.4         | 16,025.0         | 18,084.4         | P/E (analyst) (X)                     | 10.3            | 9.7             | 7.7             | 6.9              |
| D&A add-back                              | 1,672.3          | 1,902.9          | 2,268.9          | 2,662.2          | P/B (X)                               | 2.5             | 2.9             | 2.3             | 1.9              |
| Minorities interests add-back             | (0.3)            | (0.5)            | (0.6)            | (0.7)            | EV/EBITDA (X)                         | 7.3             | 7.1             | 5.5             | 4.6              |
| Net (inc)/dec working capital             | (3,528.6)        | (4,508.5)        | (2,994.9)        | (1,872.0)        | EV/GCI (X)                            | 2.1             | 2.5             | 2.0             | 1.7              |
| Other operating cash flow                 | (89.2)           | (167.7)          | (105.7)          | (73.0)           | Dividend yield (%)                    | 2.9             | 3.1             | 3.9             | 4.4              |
| <b>Cash flow from operations</b>          | <b>6,095.8</b>   | <b>10,000.5</b>  | <b>15,192.7</b>  | <b>18,800.8</b>  |                                       |                 |                 |                 |                  |
| Capital expenditures                      | (7,228.9)        | (6,867.3)        | (7,722.7)        | (8,527.6)        |                                       |                 |                 |                 |                  |
| Acquisitions                              | 0.0              | 0.0              | 0.0              | 0.0              |                                       |                 |                 |                 |                  |
| Divestitures                              | 0.0              | 0.0              | 0.0              | 0.0              |                                       |                 |                 |                 |                  |
| Others                                    | 19.0             | 0.0              | 0.0              | 0.0              |                                       |                 |                 |                 |                  |
| <b>Cash flow from investments</b>         | <b>(7,210.0)</b> | <b>(6,867.3)</b> | <b>(7,722.7)</b> | <b>(8,527.6)</b> |                                       |                 |                 |                 |                  |
| Dividends paid (common & pref)            | (2,494.8)        | (2,433.9)        | (3,832.3)        | (4,807.5)        |                                       |                 |                 |                 |                  |
| Inc/(dec) in debt                         | (13.5)           | 0.0              | 0.0              | 0.0              |                                       |                 |                 |                 |                  |
| Common stock issuance (repurchase)        | 0.0              | 0.0              | 0.0              | 0.0              |                                       |                 |                 |                 |                  |
| Other financing cash flows                | 26.2             | 0.0              | 0.0              | 0.0              |                                       |                 |                 |                 |                  |
| <b>Cash flow from financing</b>           | <b>(2,482.1)</b> | <b>(2,433.9)</b> | <b>(3,832.3)</b> | <b>(4,807.5)</b> |                                       |                 |                 |                 |                  |
| <b>Total cash flow</b>                    | <b>(3,596.3)</b> | <b>699.3</b>     | <b>3,637.6</b>   | <b>5,465.7</b>   |                                       |                 |                 |                 |                  |

Note: Last actual year may include reported and estimated data.

Source: Company data, Goldman Sachs Research estimates.

## Analyst Contributors

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**Exhibit 1: We revise our 2015-17E earnings to factor in the earlier H8 launch and stronger SUV sales volume**

| (Rmb mn)                   | 2015E         |               |           | 2016E         |               |           | 2017E         |               |           |
|----------------------------|---------------|---------------|-----------|---------------|---------------|-----------|---------------|---------------|-----------|
|                            | New           | Old           | Diff.     | New           | Old           | Diff.     | New           | Old           | Diff.     |
| Revenue                    | 91,565        | 85,861        | 7%        | 110,324       | 106,844       | 3%        | 121,823       | 121,166       | 1%        |
| Gross profit (excl. D&A)   | 25,078        | 23,330        | 7%        | 30,713        | 29,513        | 4%        | 34,279        | 33,772        | 2%        |
| Gross profit (incl. D&A)   | 25,078        | 23,330        | 7%        | 30,713        | 29,513        | 4%        | 34,279        | 33,772        | 2%        |
| EBIT                       | 14,911        | 13,802        | 8%        | 18,817        | 17,932        | 5%        | 21,230        | 20,744        | 2%        |
| Pretax profit              | 15,223        | 14,139        | 8%        | 19,096        | 18,149        | 5%        | 21,550        | 20,967        | 3%        |
| <b>Reported net profit</b> | <b>12,774</b> | <b>11,721</b> | <b>9%</b> | <b>16,025</b> | <b>15,045</b> | <b>7%</b> | <b>18,084</b> | <b>17,382</b> | <b>4%</b> |
| <b>Reported EPS (Rmb)</b>  | <b>4.20</b>   | <b>3.85</b>   | <b>9%</b> | <b>5.27</b>   | <b>4.95</b>   | <b>7%</b> | <b>5.94</b>   | <b>5.71</b>   | <b>4%</b> |

Source: Gao Hua Securities Research.

# Disclosure Appendix

## Reg AC

We, Yipeng Yang and Yuqian Ding, hereby certify that all of the views expressed in this report accurately reflect our personal views about the subject company or companies and its or their securities. We also certify that no part of our compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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The precise calculation of each metric may vary depending on the fiscal year, industry and region but the standard approach is as follows:

**Growth** is a composite of next year's estimate over current year's estimate, e.g. EPS, EBITDA, Revenue. **Return** is a year one prospective aggregate of various return on capital measures, e.g. CROCI, ROACE, and ROE. **Multiple** is a composite of one-year forward valuation ratios, e.g. P/E, dividend yield, EV/FCF, EV/EBITDA, EV/DACF, Price/Book. **Volatility** is measured as trailing twelve-month volatility adjusted for dividends.

## Quantum

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Yipeng Yang: China Autos. Yuqian Ding: China Autos.

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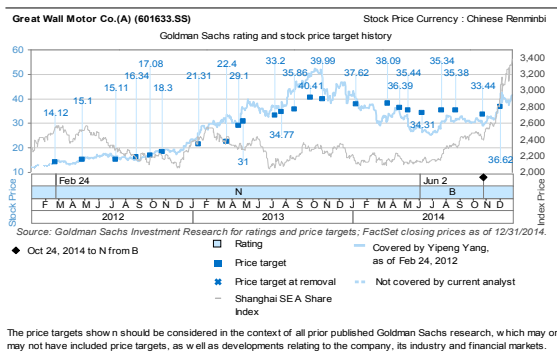
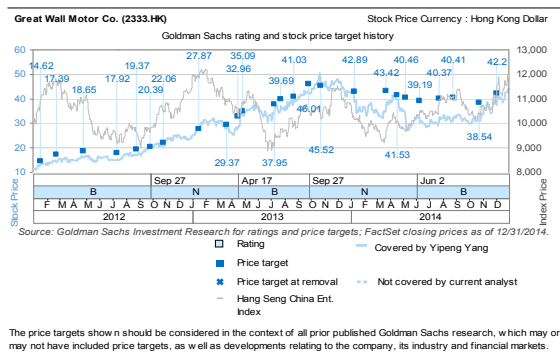
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Goldman Sachs Investment Research global coverage universe

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|--------|---------------------|------|------|--|----------------------------------|------|------|
|        | Buy                 | Hold | Sell |  | Buy                              | Hold | Sell |
| Global | 33%                 | 54%  | 13%  |  | 44%                              | 38%  | 32%  |

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## Price target and rating history chart(s)



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