

29 September 2017

买入
维持

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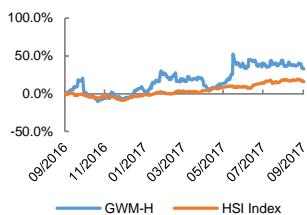
GREAT WALL MOTOR (2333 HK)

Financial summary and valuation

Market Data: 28 September 2017

Closing Price (HK\$)	9.60
Price Target (HK\$)	12.50
HSCEI	10,875
HSCCI	4,258
52-week High/Low (HK\$)	11.44/6.43
Market Cap (USD Mn)	15,592
Market Cap (HK\$ Mn)	121,719
Shares Outstanding (Mn)	9,127
Exchange Rate (RMB-HK\$)	0.853

Price Performance Chart:



Source: Bloomberg

Analyst

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Related Reports

"GWM (2333:HK)-Engine restart"
August 28, 2017

"GWM (2333:HK)-Gearing down"
July 24, 2017

"GWM (2333:HK)-Engines primed"
June 13, 2017

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	2015	2016	2017E	2018E	2019E
Revenue (Rmbm)	76,033	98,616	100,630	122,070	136,431
YOY (%)	21.5	29.7	2.0	21.3	11.8
Net income (Rmbm)	8,059	10,551	6,991	9,636	11,935
YOY (%)	0.2	30.9	(33.7)	37.8	23.8
EPS (RMB)	0.88	1.16	0.77	1.06	1.31
Diluted EPS (Rmb)	0.88	1.16	0.77	1.06	1.31
ROE (%)	21.0	22.3	13.7	16.4	17.6
Debt/asset (%)	46.6	48.7	47.0	49.2	47.6
Dividend Yield (%)	7.4	4.3	2.8	3.9	4.8
P/E (x)	9.3	7.1	10.7	7.8	6.3
P/B (x)	1.9	1.6	1.5	1.3	1.1
EV/EBITDA (x)	6.9	5.3	7.1	5.3	4.4

Note: Diluted EPS is calculated as if all outstanding convertible securities, such as convertible preferred shares, convertible debentures, stock options and warrants, were exercised. P/E is calculated as closing price divided by each year's EPS.

投资要点:

9月28日,长城汽车公告计划通过入股 Pilbara Minerals 投资澳大利亚锂矿资源,总投资额约为2800万澳币或1.46亿人民币。由于工信部已正式出台乘用车企业平均燃料消耗量与新能源汽车积分并行管理办法("双积分政策"),并于2019年正式考核新能源积分,我们认为,长城汽车加强锂资源储备,有助于推动公司新能源产品开发。我们维持17年EPS人民币0.77元(同比下降33.7%),18年EPS人民币1.06元(同比增长37.8%),19年EPS人民币1.31元(同比增长23.8%)。维持目标价港币12.50元,对应30.2%上升空间,维持买入评级。

新能源布局。长城汽车计划通过全资子公司亿新发展认购5,600万股 Pilbara Minerals 新股,交易金额为2800万澳元或1.45亿人民币,长城汽车将持有 Pilbara Minerals 不超过3.5%的股权。交易允许长城汽车按约定的定价,每年包销7.5万吨锂辉石精矿。工信部已正式出台双积分政策,并要求2019年车企新能源积分达到燃油车产量的10%,否则需要通过购买新能源积分抵偿。未来公司将积极推出新能源车型,P8将于4Q17上市,VV7及VV5深混车型将于18年上市。我们认为,长城汽车加强锂资源储备,有助于推动公司新能源产品开发,加快完成2019-2020年积分考核目标。

新品周期启动。公司7月销量同比止跌,主要受益于VV7及新H6产能逐渐释放。我们对新车销量攀升保持信心,随着旺季到来,产量爬坡,我们认为月销量将从7月起逐渐改善。我们预期VV7月销量达到9月8500台,10月10,000台。此外,WEY品牌旗下紧凑型SUV VV5已于8月底上市,售价15-16.3万人民币,目前订单情况良好。WEY产品等车期平均约45天。我们预期WEY销量将达到17年7万台,18年22万台(同比增长214%),19年30万台(同比增长36%)。

盈利能力改善。由于年初至今的红包补贴及人力成本上升,公司毛利率由2016年24.5%降至1H17的19.4%。由于终端优惠幅度自4Q17起收窄,我们认为降价的负面影响将逐渐减弱,并且随着WEY车型上量,产品结构逐渐上移。我们认为随着18年新车上量,盈利水平将有所改善,我们预计毛利率将由17年19.6%升至18年20.6%,19年21.4%。

维持买入评级。我们维持17年EPS人民币0.77元(同比下降33.7%),18年EPS人民币1.06元(同比增长37.8%),19年EPS人民币1.31元(同比增长23.8%)。维持目标价港币12.50元,对应30.2%上升空间,维持买入评级。

投资要点：

Great Wall Motor announced on 28 September it will invest in mining rights in Australia for A\$28m (or Rmb146m). Given the official release of the dual-credit scheme, which will be implemented from 2019, we believe the company's investment in lithium resources will strengthen its new-energy vehicle (NEV) development. We maintain our EPS forecasts of Rmb0.77 in 17E (-33.6% YoY), Rmb1.06 in 18E (+37.7% YoY), and Rmb1.31 in 19E (+23.6% YoY). We maintain our target price of HK\$12.50. With 30.2% upside, we maintain our BUY rating.

NEV move. Great Wall Motor (GWM) announced it will invest in mining rights in Australia through the subscription of at least 3.5% equity interest in Pilbara Minerals via Billion Sunny Development, a wholly owned subsidiary. The company will subscribe to 56m new shares in Pilbara Minerals, located in western Australia, at A\$0.5 per share, amounting to A\$28m (or Rmb146m). The transaction will allow GWM to secure 75,000tpa of spodumene concentrate at a mutually agreed price. We believe the company will strengthen its NEV development through enhancing its lithium resources reserve. MIIT released a dual-credit scheme requiring automakers to achieve NEV credits of at least 10%, based on fuel-powered vehicle production volume, with automakers failing to meet the requirement having to pay for NEV credits. Given GWM's plans to launch several NEV models, such as *P8*, a plug-in hybrid electric vehicle (PHEV) model, in 4Q17, *VV7* and *VV5* hybrid electric vehicle (HEV) models in 2018, we expect the company to catch up in the NEV market in 2018.

Strong product cycle to kick off. The company's monthly sales stopped sliding in July with 69k units, mainly due to increasing capacity of *New H6* and *VV7* models. We are still positive on the company's newly launched models and expect monthly sales to pick up from July on. We expect monthly sales of *VV7* to reach 8.5k units in September and 10k in October. Besides, the company launched the *VV5* model, a compact sport utility vehicle (SUV) under the *WEY* brand, in late August, and gained satisfying orders. The waiting period for *WEY* models is around 45 days. As the capacity is ramping up as we expected, we maintain sales forecasts for the *WEY* brand at 70k units in 17E, 220k units in 18E (+214% YoY), and 300k units in 18E (+36% YoY).

Margin recovery in 18E. Given price cuts for *Haval* models and rising labour costs, gross margin dropped from 24.5% in 2016 to 19.4% in 1H17. However, we expect the negative impact from special offers to decrease from 4Q17 on, with narrowing discounts during the peak season and a shift in the product mix towards higher-priced *WEY* models. We forecast gross margin to rebound from 19.6% in 17E to 20.6% in 18E and 21.4% in 19E, backed by capacity expansion and higher profitability of new models.

Maintain BUY. We maintain our EPS forecasts of Rmb0.77 in 17E (-33.6% YoY), Rmb1.06 in 18E (+37.7% YoY) and Rmb1.31 in 19E (+23.6% YoY). We maintain our target price of HK\$12.50. With 30.2% upside, we maintain our BUY rating.

Catching up

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Fig 1: Calculation methods of NEV credit

Type of vehicle	Standard NEV credits (per unit)
Electric vehicle	$0.012 \times R$ (max range, km)+0.8
Plug-in hybrid vehicle	2
Fuel-cell vehicle	$0.16 \times P$ (rated power, kw)

Source: MIIT, SWS Research

Note: Upper limit of standard credit is 5; Max speed for EV should be higher than 100km/h; Max range for PHEV should be above 50km;

Strong product cycle to kick off. The company's monthly sales stopped sliding in July with 69k units, mainly due to increasing capacity of New H6 and VV7 models. We are still positive on the company's newly launched models and expect monthly sales to pick up from July on. We expect monthly sales of VV7 to reach 8.5k units in September and 10k in October. Besides, the company launched the VV5 model, a compact sport utility vehicle (SUV) under the WEY brand, in late August, and gained satisfying orders. The waiting period for WEY models is around 45 days. As the capacity is ramping up as we expected, we maintain sales forecasts for the WEY brand at 70k units in 17E, 220k units in 18E (+214% YoY), and 300k units in 18E (+36% YoY).

Fig 2: Sales forecasts, by model

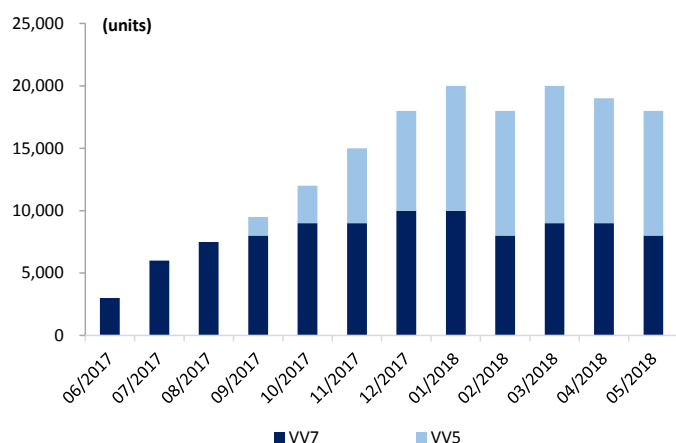
Unit sales breakdown	2015	2016	2017E	2018E	2019E
H1	74,571	69,232	30,000	30,000	30,000
H2	168,467	196,926	198,156	214,156	233,356
H5	23,208	23,299	23,299	23,299	23,299
H6	373,229	580,683	420,000	336,000	284,800
New H6			100,000	150,000	195,000
H7		48,903	30,000	30,000	30,000
H8	8,985	7,471	6,000	6,000	6,000
H9	14,011	11,504	15,000	19,500	23,400
M series	36,577				
VV7			50,000	100,000	120,000
VV5			20,000	120,000	180,000
Total SUV	699,048	938,018	892,455	1,028,955	1,125,855
YoY growth		34.20%	-4.86%	15.29%	9.42%

Total pickup	100,739	104,054	110,000	110,000	110,000
YoY growth		3.30%	5.71%	0.00%	0.00%
Total sedan	51,799	32,140	20,000	20,000	20,000
YoY growth		-38.00%	-37.80%	0.00%	0.00%
Total vehicles	851,586	1,074,212	1,022,455	1,158,955	1,255,855
YoY growth		26.10%	-4.82%	13.35%	8.36%

Source: Company data, SWS Research

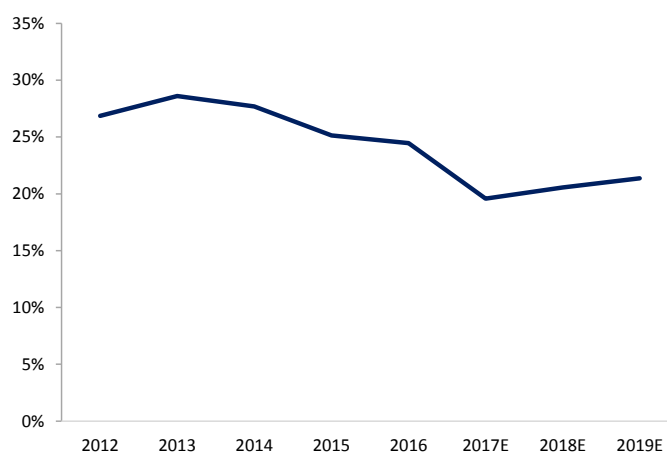
Margin recovery in 18E. Given price cuts for Haval models and rising labour costs, gross margin dropped from 24.5% in 2016 to 19.4% in 1H17. However, we expect the negative impact from special offers to decrease from 4Q17 on, with narrowing discounts during the peak season and a shift in the product mix towards higher-priced WEY models. We forecast gross margin to rebound from 19.6% in 17E to 20.6% in 18E and 21.4% in 19E, backed by capacity expansion and higher profitability of new models.

Fig 3: WEY monthly sales forecast



Source: Company data, SWS Research

Fig 4: GWM's gross margin

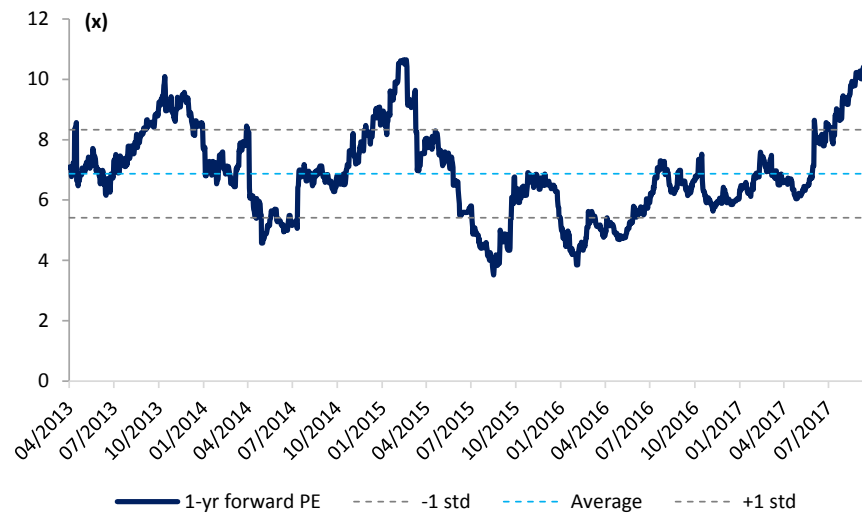


Valuation

We maintain our EPS forecasts of Rmb0.77 in 17E (-33.6% YoY), Rmb1.06 in 18E (+37.7% YoY) and Rmb1.31 in 19E (+23.6% YoY).

We maintain our target price of HK\$12.50. With 30.2% upside, we maintain our BUY rating.

Fig 5: GWM forward PE ratio



Source: Bloomberg, SWS Research

Company financials

Consolidated income statement

Rmbm	2015	2016	2017E	2018E	2019E
Revenue	76,033	98,616	100,630	122,070	136,431
Cost of sales	56,864	74,360	80,792	96,828	107,155
Gross profit	19,169	24,255	19,838	25,242	29,277
Other Income	98	30	30	30	30
Distribution expenses	2,842	3,175	3,114	3,779	4,088
Administrative expenses	4,031	4,575	4,621	5,485	5,995
EBITDA	11,068	14,452	10,643	14,190	17,351
EBIT	9,280	12,276	8,095	11,216	13,922
Finance Costs	146	13	68	26	(17)
Profit before tax	9,689	12,483	8,327	11,475	14,211
Income tax expense	1,628	1,929	1,332	1,836	2,274
Minority interests	1	3	3	3	3
Profit for the year	8,059	10,551	6,991	9,636	11,935

Source: SWS Research

Consolidated Balance Sheet

Rmbm	2015	2016	2017E	2018E	2019E
Current Assets	40,390	53,928	54,778	68,977	78,715
Bank balances and cash	3,642	2,154	942	3,138	5,926
Trade and other receivables	28,838	40,304	41,506	51,401	57,457
Inventories	4,120	6,061	6,866	8,627	9,232
Other current assets	3,791	5,409	5,464	5,811	6,100
Long-term investment	18	0	0	0	0
PP&E	19,156	24,715	23,901	26,479	28,696
Intangible and other assets	12,346	13,666	17,847	20,030	21,777
Total Assets	71,911	92,309	96,527	115,487	129,188
Current Liabilities	31,786	43,252	43,318	54,310	58,680
Borrowings	300	250	1,050	1,050	1,550
Trade and other payables	21,084	29,172	31,052	36,748	43,231
Other current liabilities	10,403	13,830	11,216	16,512	13,899
Long-term liabilities	1,737	1,703	2,059	2,488	2,775
Total Liabilities	33,524	44,956	45,377	56,797	61,455
Minority Interests	56	59	59	59	59
Shareholder Equity	38,387	47,354	51,151	58,689	67,733
Share Capital	9,127	9,127	9,127	9,127	9,127
Reserves	29,204	38,168	41,964	49,503	58,547
Equity attributable	38,331	47,295	51,092	58,631	67,674
Total Liabilities and equity	71,911	92,309	96,527	115,487	129,188

Source: SWS Research

Cash Flow Statement

Rmbm	2015	2016	2017E	2018E	2019E
Profit before taxation	9,689	12,483	8,327	11,475	14,211
Plus: Depreciation. and amortisation	1,969	2,552	2,653	3,097	3,573
Finance cost	163	11	68	26	(17)
Losses from investments	(98)	(30)	0	0	0
Change in working capital	1,708	1,295	2,503	3,019	3,168
Others	(3,397)	(7,475)	(4,297)	(6,519)	(7,695)
CF from operating activities	10,034	8,835	9,253	11,097	13,240
CAPEX	5,857	6,684	6,429	7,314	7,631
Other CF from investing activities	(12,374)	(15,052)	(14,940)	(14,628)	(16,061)
CF from investing activities	(6,517)	(8,367)	(8,510)	(7,314)	(8,431)
Equity financing	0	922	0	0	0
Net change in liabilities	743	0	1,158	429	787
Dividend and interest paid	(3,199)	(1,738)	(3,195)	(2,097)	(2,891)
Other CF from financing activities	(1,656)	(300)	0	0	0
CF from financing activities	(4,112)	(1,116)	(2,036)	(1,669)	(2,104)
Net cash flow	(595)	(648)	(1,293)	2,114	2,706

Source: SWS Research

Key Financial Ratios

	2015	2016	2017E	2018E	2019E
Ratios per share (RMB)					
Earnings per share	0.88	1.16	0.77	1.06	1.31
Diluted earnings per share	0.88	1.16	0.77	1.06	1.31
Operating CF per share	1.10	0.97	1.01	1.22	1.45
Dividend per share	0.61	0.35	0.23	0.32	0.39
Net assets per share	4.21	5.19	5.60	6.43	7.42
Key Operating Ratios(%)					
ROIC	19.9	21.8	13.0	15.8	16.9
ROE	21.0	22.3	13.7	16.4	17.6
Gross profit margin	11.2	11.4	7.2	8.3	9.2
EBITDA Margin	14.6	14.7	10.6	11.6	12.7
EBIT Margin	12.2	12.4	8.0	9.2	10.2
Growth rate of Revenue(YoY)	21.5	29.7	2.0	21.3	11.8
Growth rate of Profit(YoY)	0.2	30.9	-33.7	37.8	23.8
Debt-to-asset ratio	46.6	48.7	47.0	49.2	47.6
Turnover rate of net assets	2.0	2.1	2.0	2.1	2.0
Turnover rate of total assets	1.1	1.1	1.0	1.1	1.1
Effective tax rate (%)	16.8	15.5	16.0	16.0	16.0
Dividend yield (%)	6.7	3.9	2.5	3.5	4.3
Valuation Ratios (X)					
P/E	9.3	7.1	10.7	7.8	6.3
P/B	1.9	1.6	1.5	1.3	1.1
EV/Sale	1.0	0.8	0.8	0.6	0.6
EV/EBITDA	6.9	5.3	7.1	5.3	4.4

Source: SWS Research

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BUY: Share price performance is expected to generate more than 20% upside over a 12-month period.

Outperform: Share price performance is expected to generate between 10-20% upside over a 12-month period.

Hold: Share price performance is expected to generate between 10% downside to 10% upside over a 12-month period.

Underperform: Share price performance is expected to generate between 10-20% downside over a 12-month period.

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Equal weight: Industry performs about the same as that of the whole market;

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HSCEI is the benchmark employed in this report.

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