



Interest in Jeep only at study stage with no FCA interaction

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Focus stocks
Great Wall Motor (2333.HK), HKD10.08 Sell Price Target HKD8.35
Great Wall Motor-A (601633.SS), CNY13.26 Sell Price Target CNY7.60

Source: Deutsche Bank

Company has expressed interest in the Jeep brand, but things are preliminary
Great Wall Motor (GWM) has made a clarification announcement in relation to various news articles, including Reuter's, reporting the company's intention to acquire the Jeep operation from Fiat Chrysler (FCA, FCHA.MI, EUR10.7, Hold) with communications reportedly already established between GWM and FCA. In response, GWM clarifies that:

- GWM has indeed focused attention on FCA and conducted studies on that company. However, there has been no concrete progress thus far, and there exist uncertainties about whether GWM will proceed with such a project;
- GWM has not established contact with the Board of FCA, and there has been no negotiation with FCA's officers and no agreement signed.

Trading of GWM's shares will resume on 23 August.

Deutsche Bank view – sticking to fundamentals when valuing GWM; Sell

As mentioned in our commentary earlier on 22 August, while we think the Jeep business could be complementary to GWM's operations given the SUV focus, a deal is easier said than done. To begin with, while FCA's CEO has said in the past that he is open to the idea of having a partner or buyer for the company, he has not indicated whether certain brand(s) can be sold separately.

There are also potential policy hurdles involved in a cross-border M&A. On the Chinese side, a Chinese corporate would need the country's regulators' approval to make an overseas acquisition, and this could be tough due to recent capital outflow restrictions. On the US side, US regulators' approval, e.g. from the Committee of Foreign Investment in the US, would also be needed, and this could get complicated.

To conclude, we think the chance of GWM buying Jeep is still remote. We value the company based on its current fundamentals, although GMW's shares might be bid up by speculative investors when trading resumes. We have a Sell rating on both GWM H shares and GWM A shares, since we think the company's market share is subject to intense competition from other up-and-coming local brand SUV products. To upgrade their products to compete, we envision sales and margin pressure going forward. Our target price is set at 7x FY17/18E P/E with 2% FY-16-19E EPS CAGR. Key upside risks are strong new model sales and margin rebound.