

Outperform

(maintained)

Automobile

Key Data

Dec. 09, 2019

Closing Price	8.94
Total Shares (Mn)	9127.27
Shares Outstanding (Mn)	9127.27
Market Cap(CNY/Mn)	81597.78
Market Float(CNY/Mn)	53887.90
Net Assets (CNY/Mn)	52991.61
Total Assets (CNY/Mn)	98860.9
BVPS	5.81

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GREAT WALL MOTOR

(601633.SH)

Inventory Management Bearing Pressure in Short-term; Sales of Pickup Beating Expectation

10-Dec-19

Key Financial Indicators

FY	2018A	2019E	2020E	2021E
Revenue (Mn/CNY)	99230	92860	105959	112716
YoY (%)	-2.7%	-6.4%	14.1%	6.4%
Net Profit (Mn/CNY)	5207	4567	4894	5347
YoY (%)	3.6%	-12.3%	7.2%	9.3%
Gross Margin (%)	17.9%	17.1%	15.5%	15.2%
Net Profit Margin (%)	5.2%	4.9%	4.6%	4.7%
ROE (%)	9.9%	8.4%	8.6%	9.0%
EPS (CNY)	0.57	0.50	0.54	0.59
OCFPS (CNY)	2.16	0.71	0.83	1.18

Company Profile

Great Wall Motor Company Limited is a sport utility vehicle (SUV) manufacturer in the People's Republic of China (the PRC). The Company is principally engaged in the design, research and development, manufacture and sale, as well as distribution of SUVs, sedans, pick-up trucks and automobile-related parts and components. The Company has three brands, Great Wall, Haval and WEY, and its products include SUVs, sedans and pick-up trucks. The Company also manufactures and supplies relative automotive parts and components. The Company's vertically integrated parts and components production unit manufactures various products, including engines, transmissions, chassis, electronics, interior and exterior decoration parts and molds. The Company manufactures cars, which include Great Wall C50 and Great Wall C30. The Company's SUVs include Great Wall H6, Great Wall H5-E and Great Wall M4. The Company's pick up vehicles are Wingle 5, Wingle 6 and Wingle 5 Upgrade. [\(Source: Reuters\)](#)

Event

Great Wall Motor (the company) announced its November production and sales data, showing the wholesale vol. in November was 115,000 units, down 13.1% YoY, up 0.1% MoM, and the production was 119,000 units, declining 11.8% YoY, which was generally in line with expectation.

Comments

The company's sales vol. dropped slightly, mainly due to active control of inventory in channels. The sales vol. of Great Wall maintained a positive increase during M619-M1019, outperforming the other counterparts. In order to prepare for the Spring Festival Shopping in December, the company gradually increased wholesales in September and October. The slip in November was a result of keeping distributors' inventory at a reasonable level and actively decreasing the wholesale. The accumulative wholesale vol. from January to November registered 952,000 units, leaving a narrow gap between the yearly target of 1,070,000 units (118,000 units left) which is very likely to realize.

HAVAL born the pressure, WEY was sold well, and Pickup beat expectation. According to different product structure, the sale vol. of HAVAL in November was 83,400 units (-21.6% YoY), 10,500 units of WEY (-8.2% YoY), 2300 units of ORA (+115.9% YoY, because of small base), and 19,100 units of Pickup (+39.4% YoY). The sale vol. slip of HAVAL was the main reason of the overall decline, and H6, the main model of HAVAL reported a sales vol. of 41,700 units (-23.1% YoY); WEY and the new energy vehicles had a stable performance; the sale vol. of Pickup, in November alone, unexpectedly stood at 6,259 units, rising 24.7% MoM. In the future, with the cancellation of regulations and the development of



passenger-orientation trend of Pickup, Pickup Wingle was sold 12,800 units, down 6.4% YoY, which may be due to the sale splits of Pickup Cannon. Given high growth, good landscape, and strong profitability of Pickup, the company's profit margin is expected to gradually increase as Pickup's proportion goes up.

The quarterly profit improved compared with the growth recorded in the third quarter; the shift of new bench products is worth expecting; we maintain "Outperform" rating for the company. The company has been promoting internal reform since 2018, and the improvement of R&D, products, management and marketing has gradually paid off. The sale of 2019 is eye-catching with continuously beating the other companies in the industry. Benefiting from cost-reducing and efficiency-increasing, the company's Q319 profitability has improved, and its gross margin in Q319 alone recovered to 18.5%, up 4.9pct QoQ. With the sale of Pickup Cannon climbing continuously, the lead-in of ORA R2 and SUV new models, and the gradual shift of brand-new products with dynamic bench in 2020, the company is expected to realize stable growth. It is estimated that the net profit attributable to shareholders will stand at CNY 4.57bn/CNY4.89bn/CNY5.35bn for year 2019/2020/2021. We maintain "Outperform" for the company.

Potential risks: slump in sale in the industry; less-than -expected sale of new vehicles

This English translation of the original Chinese version < 库存管理短期承压，皮卡炮销量超预期 > issued by Industrial Securities on December, 10, 2019 is for information purpose only. In case of a discrepancy, the Chinese original will prevail.

Appendix

Balance Sheet Mn/CNY

FY	2018A	2019E	2020E	2021E
Current Assets	66126	70445	77901	84868
Cash and Cash Equivalent	7682	13220	15983	21719
Trading Financial Assets	3178	1695	1960	2074
Account Receivables	3343	2139	2772	3003
Other Receivables	652	447	546	595
Inventory	4445	4896	5493	5826
Non-current Asset	45674	39485	42916	42149
Available-for-sale Financial Assets	0	4	3	3
Long-term Equity Investment	0	0	0	0
Investment Real Estate	184	155	160	162
Fixed Assets	28994	30462	33344	33505
Construction in Progress	4406	3486	622	0
Oil and Gas Assets	0	0	0	0
Intangible Assets	3391	3349	3302	3253
Total Assets	111800	109930	120817	127017
Current Liabilities	54618	52076	57922	60307
Short-term Loans	12800	10788	11833	11646
Notes Payable	29402	24576	30873	32391
Account Payable	0	4315	2510	3125
Others	12417	12398	12705	13145
Non-current Liabilities	4493	3283	5789	6781
Long-term Loans	2158	3149	4286	5473
Others	2336	134	1503	1308
Total Liabilities	59112	55359	63711	67088
Share Capital	9127	9127	9127	9127
Capital Reserve	1411	1411	1411	1411
Undistributed Profit	36620	37794	39850	42143
Minority Interest	164	202	239	277
Total Shareholders' Equity	52689	54571	57106	59929
Total Liabilities and Equity	111800	109930	120817	127017

Cash Flow Statement Mn/CNY

FY	2018A	2019E	2020E	2021E
Net Profit	5207	4567	4894	5347
Depreciation and Amortization	3882	3309	3881	4437
Property Depreciation Preparation	137	-270	-170	54
Amortization of Intangible Assets	264	180	194	201
Loss from Fair Value Change	140	-75	-75	-75
Financial Expense	577	-397	-453	-482
Investment Loss	-219	-180	-40	-240
Minority Interest Income	40	38	38	38
Change in Working Capitals	9625	-4146	-1596	1532
Cash Flows from Operating Activities	19698	6518	7610	10742
Cash Flows from Investment Activities	-10040	2326	-5172	-4002
Cash Flows from Financing Activities	-6501	-3306	325	-1005
Net Change in Cash	2771	5538	2763	5763
Beginning Balance of Cash	3844	7682	13220	15983
Ending Balance of Cash	6615	13220	15983	21719

Income Statement Mn/CNY

FY	2018A	2019E	2020E	2021E
Operating Income	99230	92860	105959	112716
Operating Expense	81481	76981	89579	95584
Business Tax and Surcharges	3627	3063	3873	4120
Selling Expense	4575	3585	4091	4351
Administration Expense	1676	1928	1695	1691
Financial Expense	-494	-397	-453	-482
Asset Impairment	137	101	101	102
Change in Fair Value	-140	-75	-75	-75
Investment Income	219	180	40	240
Operating Profit	6232	5300	5714	6162
Non-business Income	253	296	300	400
Non-business Expense	8	28	50	50
Total Profit	6477	5568	5964	6512
Income Tax	1229	964	1032	1127
Net Profit	5248	4605	4932	5385
Minority Interest Income	40	38	38	38
Net Profit Attributable to Parent Company	5207	4567	4894	5347
EPS(CNY)	0.57	0.50	0.54	0.59

Key Financial Ratios

FY	2018A	2019E	2020E	2021E
Growth				
Increase Rate of Business Revenue	-2.7%	-6.4%	14.1%	6.4%
Increase Rate of Business Profit	6.5%	-15.0%	7.8%	7.9%
Net Profit Growth Rate	3.6%	-12.3%	7.2%	9.3%
Profitability				
Gross Margin Rate	17.9%	17.1%	15.5%	15.2%
Net Profit Margin	5.2%	4.9%	4.6%	4.7%
ROE	9.9%	8.4%	8.6%	9.0%

Solvency

Asset-liability Ratio	52.9%	50.4%	52.7%	52.8%
Current Ratio	1.21	1.35	1.34	1.41
Quick Ratio	0.95	1.09	1.22	1.44

Operation Capacity

Asset Turnover Ratio	0.89	0.84	0.92	0.91
AR Turnover Ratio	51.23	35.66	50.32	45.25

Stock Info(CNY)

EPS	0.57	0.50	0.54	0.59
OCFPS	2.16	0.71	0.83	1.18
NAVPS	5.75	5.96	6.23	6.54

Valuation Ratio

PE	16.4	18.7	17.4	16.0
PB	1.6	1.6	1.5	1.4

Introduction of Share Investment Rating

Industry Investment Rating

When measuring the difference between the markup of the industry index and that of the market's benchmarks (Shanghai Composite Index/Shenzhen Component Index) within twelve months after the release of the report, we define the terms as follows:

- **Overweight:** Industry performs better than that of the whole market;
- **Neutral:** Industry performs about the same as that of the whole market;
- **Underweight:** Industry performs worse than that of the whole market

Company Investment Rating

When measuring the difference between the markup of the company stock price and that of the market's benchmarks (Shanghai Composite Index/Shenzhen Component Index) within twelve months after the release of this report, we define the terms as follows:

- **Buy:** With a markup more than 15% better than that of the market;
- **Outperform:** With a markup 5% to 15% better than that of the market;
- **Neutral:** With a markup less than 5% better or worse than that of the market;
- **Underperform:** With a markup more than 5% worse than that of the market.

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